

City of Newport, Kentucky

Comprehensive Annual Financial Report Year Ended June 30, 2017



Riverfront Master Plan Concept

**CITY OF NEWPORT, KENTUCKY
COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the Year Ended June 30, 2017

Prepared by:

**Finance Department
City of Newport**

CITY OF NEWPORT, KENTUCKY

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2017

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INTRODUCTORY SECTION



February 1, 2018

To the Mayor, City Commissioners and Citizens of the City of Newport, Kentucky:

We are pleased to present the Comprehensive Annual Financial Report of The City of Newport, Kentucky (the City or Newport) for the fiscal year ended June 30, 2017 (FY 17).

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Newport's management. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and the results of operations of the City. To provide a reasonable basis for making these representations, management of the City has established internal controls that are designed both to protect its assets and the integrity of its operations, and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). All disclosures necessary to enable an understanding of financial activities have been included. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The Commonwealth of Kentucky requires that all general purpose governments publish, by February 1st immediately following the close of its fiscal year, a complete set of financial statements prepared in accordance with GAAP, consistently applied, and audited by a firm of independent certified public accountants. RFH, PLLC, engaged by Newport to audit its FY 17 financial statements, issued an unmodified (clean) opinion on the financial statements for the fiscal year ended June 30, 2017, indicating that the City's financial statements are fairly presented in conformity with GAAP. The Independent Auditors' Report is included as the first component of the financial section of this report.

The independent audit of the financial statements of the City is part of a broader, federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require an independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with Federal Program requirements. In this fiscal year, a single audit was required due to the successful grant awards from AFG, CDBG and KYTC/FHWA that were over the \$750,000 expenditure threshold of Federal grant funds.

The Government Accounting Standards Board (GASB) requires that management provide a narrative introduction, overview and analysis to accompany the Financial Statements in the form of a Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent public accountants.

The Financial Statements of the City consist of the Statements of Net Position, Statements of Revenue, Expense and Changes in Net Position, and Statements of Cash Flows. Notes to the Financial Statements are an integral part of the financial statements and should be read to better understand the reports presented.

City of Newport Overview

The City of Newport, founded in 1795, is located in the northern most part of the state, situated directly across the Ohio River from Cincinnati, Ohio, occupies a land area of 3 1/2 square miles and serves a population of approximately 16,000. The City's operations are primarily funded through the levying of taxes with major revenues from taxation on:

- Gross payroll
- Insurance premium
- Gross receipts (business) Bank deposits
- Personal and Real property

Overseeing operations of the City is the City Manager, Thomas Fromme. According to the International City/County Management Association, the council-manager form of government "combines the strong political leadership of elected officials with the strong managerial experience of an appointed manager or administrator. All power and authority to set policy rests with an elected governing body, which includes a mayor or chairperson and members of the council, commission, or board. The governing body in turn hires a nonpartisan manager who has very broad authority to run the organization."

Council (or Commission)-Manager has been Newport's form of government since 1932 and under such the voters elect only the City Commission, which appoints a City Manager to administer municipal affairs under its supervision. The Commission acts only collectively, and its individual members, including the Mayor, have no administrative functions. The Board of Commissioners is elected on a non-partisan basis for a two year term, while the Mayor serves a four year term. The election for the Offices of City Commissioner and Office of the Mayor was held in November, 2016.

The City Manager, subject to the general supervision of the Commission, is in full charge of the administration of municipal affairs, preparing the budget, appointing and dismissing personnel, directing the work of municipal departments, and attending Commission meetings, in which recommendations on municipal business are presented and an active part in discussions is taken. In directing daily operations of the City, the Manager is responsible for ensuring effective and efficient government service. Every City employee ultimately answers to the City Manager, so the Manager has the right to recommend or hire and fire staff as appropriate and allowable by law.

Departments over which the City Manager supervises are as follows:

- Police – An accredited, forty-five member department with divisions of administration, patrol, traffic, and investigation.
- Fire – Thirty-seven member department with divisions of administration, headquarters, education and prevention, emergency medical services, and South Newport.
- Community Services – employs fifteen full-time and nineteen seasonal in the divisions of administration, Veteran's pool, public works, parks and recreation, refuse, and municipal building maintenance.
- Development Services – under which new or rehabilitation development plan review, building permit, and code enforcement services are conducted. They employ seven full time.
- Finance and Administration – five full time and one part time personnel perform accounts payable, accounts receivable, management analyzation and reporting functions, property tax collection, business and rental licenses and fees collection as well as budget assistance and tracking.

In addition to the aforementioned departments and related activities, the governing body and City Manager bear responsibility for funding the policemen's and firefighter's retirement fund and City employees' retirement fund therefore, these activities are included in the annual report.

The policemen's and firefighter's and the City employees' retirement funds are self-funded plans under which those who retired before 1988 are still paid. The funds are considered fiduciary funds, which are funds used to account for assets held in trust by the City in a trustee capacity and cannot be used to support any other program. Additional information on the fund can be found in the auditor's "Notes to the financial statements" on pages 34 - 60. The City has been a participant in the City and County Employees Retirement System (CERS) through the Commonwealth of Kentucky since August, 1988¹.

The Newport Foundation is a non-profit company established for the main purpose of facilitating the many festivals and community special events, recreation and improvement of quality of life. This organization provides citizens and corporate sponsors an avenue to make tax -free charitable donations. It is presented in the annual report as a "discretely presented component unit" with its own financial statements on pages 33 – 34. A discretely presented component unit is an organization that is legally separate and tax-exempt but the economic resources received or held are almost entirely for the direct benefit of the primary government or its constituents. Plans were made in FY 17 for the separation of this entity from the oversight of the City to begin in FY 18.

¹ The Government Accounting Standards Board (GASB) passed GASB statement 68 in June, 2012. Effective in fiscal year 2015, this statement required those that participate in "cost-sharing, multiple employers" plans, like CERS, to include a representative portion of the plans' unfunded liability on the City's balance sheet. The Kentucky Retirement Systems actuaries calculated Newport's percentage of unfunded liability at June, 2016 to be a total of .0799% for non-hazardous and .9487% for hazardous, equating to \$20,213,699. This amount is shown mainly on pages 23 and 28.

The Housing Authority of Newport (HAN) maintains close ties with the City, although it is **not** a component unit of the City as defined by the pronouncements of the Government Accounting Standards Board. The City is not financially accountable for the operations of HAN, has no responsibility to fund deficits or receive surpluses, and does not guarantee HAN's debt. The City provides HAN with grants from the City's CDBG (Community Development Block Grant) allocations for project specific development efforts.

Funding for operations is planned through the annual budget which serves as the main financial control foundation. Department heads work with the Finance Department to create a requested budget. The City Manager uses these requests as the starting point for developing the proposed budget for review by the Board of Commissioners. The final budget must be adopted by June 30th.

The City Manager can make transfers of appropriations between departments without the approval of Board of Commissioners but the Board of Commissioners must approve revisions to the budget that would alter total revenues and expenditures of any fund, noting that expenditures may not legally exceed budgeted appropriations at the fund level. Budget-to- actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

Economic Condition and Outlook

Like every other major metropolitan area in the United States, metropolitan-Northern Kentucky was initially adversely impacted by the global economic recession. But many local and national economists have stated that metropolitan-Northern Kentucky and Cincinnati remain attractive places to live, work and invest because the fundamentals are quite strong, the weather typically moderate, the overall workforce is educated, a concentration of excellent colleges and universities can be found, and all major U.S. cities are accessible from the Cincinnati-Northern Kentucky International Airport. As such economists have stated that, given these fundamentals, the region's economic recovery and overall outlook remain better than that of the nation.

Our region has seen an uptick in new building starts in the last year. Here in Newport we also see several new developments on the horizon: office, residential, mixed use, large and small scale development, in locations throughout the city. The New Route 9 will soon be completely open and development along this corridor is being discussed. Ovation and other Riverfront Development are expected to continue. The departure of the Baptist Home, while creating a short term loss of payroll, have brought forward another opportunity for attracting new residents into the City in a way that will benefit the surrounding neighborhood.

Our goals continue to further redevelopment residential and commercial; working on quality of life issues such as parks and recreation and maintaining a safe walkable community. From a fiscal perspective we continue working on growing revenues, keeping our expenses reasonable, continue reducing and eliminating outstanding Tax Anticipation Notes (TAN), reduction of debt service and continued improvement of the City credit rating of A- by Standard & Poor's.

Spotlighting

In 2016 the City experienced a net loss of nine businesses but added 42 new jobs. Since 2006, the City has experienced \$300 million in new developments, making this period one of the most successful in the 222 year history of the City.

Aqua on the Levee: This \$80 million development was completed in 2017 and boasts 239 new apartments and a high quality hotel.

The Academy at 4th Street: This \$31 million residential development, located at the old 4th Street School site, is anticipated to have a groundbreaking in early spring and a projected construction time of 18 months. The new multifamily development will bring another infusion of residents to the City.

Peace Bell Mixed Use Development: Preliminary design plans have been drafted for a mixed use development on the parking lot site adjacent to the World Peace Bell. The concept plan includes a hotel as Phase I and a mixed use building as Phase II.

New Riff Distilling Whiskey Campus: Construction and rehabilitation of the rickhouse buildings is well underway. This will store thousands of barrels of New Riff's Bourbon and rye whiskey and will serve as New Riff's offices, shipping and receiving. The project is on target to be completed in 2018.

IPSCO Tubulars Site: Significant developer interest continues, and is expected to increase at the opening of the New Route 9.

One Riverfront Place: Leasing continues to improve as P.L. Marketing, a firm that manages the marketing of Corporate Brand consumer products for the Kroger Company, expands and attracts similar cluster businesses to the location.

Ovation: An updated economic impact study was submitted to the State for the TIF program. Multiple RFI responses were submitted, and development plans are being updated based on market conditions and developer interest.

Riverfront Commons: Phase II of Riverfront Commons includes a sidewalk expansion along Dave Cowens Drive and began construction late in FY 2016. Phase III of the Riverfront Commons project has been kicked off with design of two new connector bridges to the Taylor Southgate Bridge. This compliments the previous improvements, and is partially being paid for by federal funding.

New State Route 9 Connector: In 2016 Phase I of the Route 9 Project was completed from 12th Street to 9th Street, and Phase II was completed in December 2017. Phase III is currently underway with a projected completion in the fall of 2018. It will greatly reduce vehicular traffic through the neighborhood along with any associated problems of heavy traffic. We have already seen new development along this corridor and anticipate much more.

The Skywheel: Following several iterations of plan design, this project located in Newport Festival Park, is in the final stages of the review process with the Army Corps of Engineers. The estimated completion date is late 2018.

Carothers Road: Phase II design is underway.

Baptist Convalescent Center Redevelopment: The Baptist Home on Main Street in Newport is planned for a rehabilitation project including approximately 88 units of market rate residential.

Priorities for the next year

The City's focus remains to re-make Newport into an inviting place to live, work, and play. In pursuit of that goal, City Commissioners and the City Manager have identified a number of items on which to concentrate in the coming fiscal years including continued pursuit of and negotiations with businesses desiring to locate in the City, infrastructure, building, and equipment needs, riverfront mandates and continued improvements, fiscal soundness. Highlighting just the next year:

Economic Goals:

- Design overlay zone for 8/9 connector.
- 4th and 5th Street two way conversion and Monmouth Street two-way conversion.
- Westside Historic District.
- Review Zoning and Code Processes / Regulations
- Continue focus on development sites.
- Continue business retention / outreach.
- Continue Façade Program Implementation

Infrastructure Goals:

- Continue implementing plan for the street / sidewalk repairs, road paving schedule, for the year.
- Resurface Tennis courts and Basketball courts at Mussman Park.
- Resurface Veterans Park drive and Parking lot.
- Install catch basins at 1328 Waterworks Road to catch runoff.
- Repair Slide Issue on Floodwall East of Washington Pump Station.
- Repair Slide at 19th Street Detention Facility.
- Construct Headwall at 18th Street Diversion.
- Install 20 Handicap Ramps and replace 2,000 Feet of deteriorated curbing.
- Install electric panel and wiring to riverfront overlook Park.
- Phase II Carothers design completion and bidding.
- Beautification/Landscape plan for Carothers median.
- Grant Implementation: Riverfront Commons III – Bridges Project, Red Bike, South Monmouth/ Underpass.
- Redesign of Wildcat Drive.

- Grant Implementation: Riverfront Commons III – Bridges Project, Red Bike, South Monmouth/ Underpass.
- Redesign of Wildcat Drive.

Financial Goals

- Implement recommendations from 2016 Audit Report, including changes to procurement and purchasing, check approvals, payroll review, fixed asset reporting, accrued leave, budget amendments, cash receipts and adequate segregation of duties.
- Continue the Transparency Platform started with OpenGov and expand the data available.
- Springbrook: Complete Implementation of Payroll Module. Begin Business Tax and Enhanced Budgeting Module and Schedule remaining ancillary modules. Continue to refine use of Springbrook Finance Module as a method for cost control.
- Continue to investigate ways to incorporate technology into city government functions.
- Successfully negotiate three union contracts.
- Streamline approval process for Business and Rental applications.
- Reduce the amount of outstanding property taxes by continuing to enforce collections and encouraging voluntary compliance.
- Reduce the amount of unlicensed rental dwellings within the City.
- Implement new Software including the ability to accept Permit applications via the internet, accept credit card payment at no cost to the City for both permits and tax payments.

The City is in dynamic times, mending outdated financial policies and procedures, prioritizing delayed repairs and maintenance, creating five year plans for streets, equipment, and the municipal complex, while enticing entrepreneurs, expanding businesses, and artisans to create a unique community wherein all who work and play can find enjoyment.

Acknowledgements

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance and Administration Department with special thanks to Leonard Kuntz, Finance Officer, for his continued devotion to the City's financial standing and reporting.

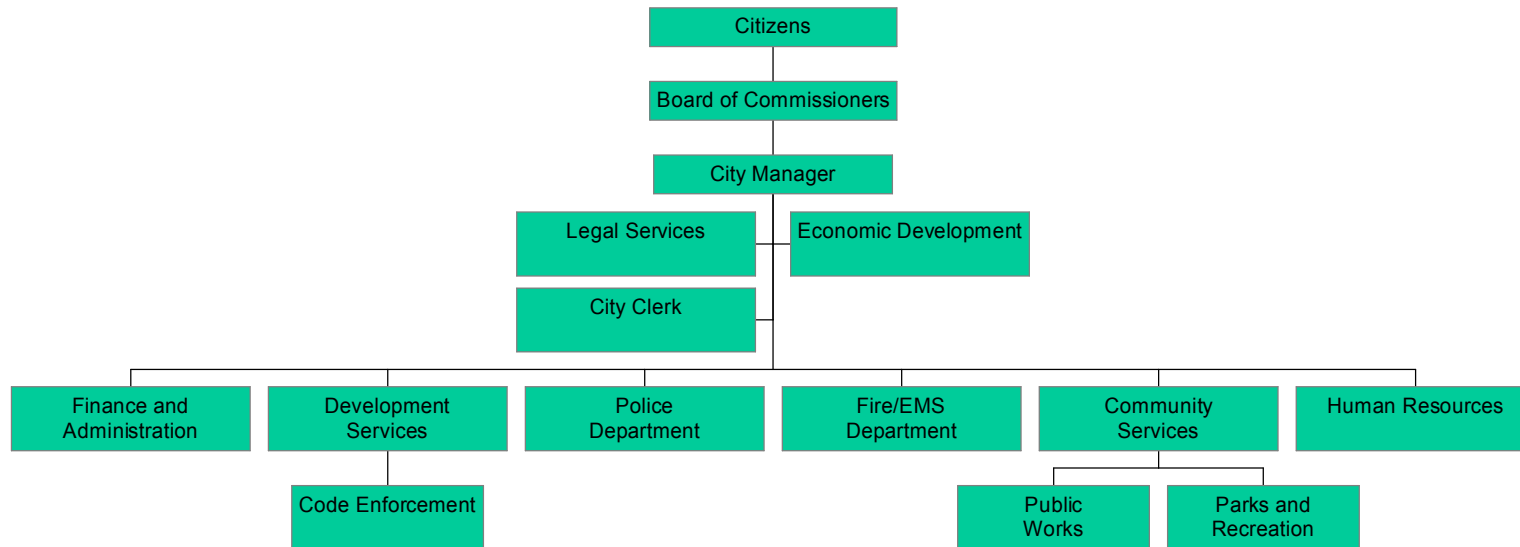
We wish to thank all of the City's departments and staff for their assistance in providing the data necessary to prepare this report. Tribute also is due to the Mayor, the Commission, and the City Manager for their unfailing support in maintaining the highest standards of professionalism in the management of the City of Newport's finances.

Sincerely and respectfully submitted,



Thomas J. Fromme

City of Newport, Kentucky Organizational Structure



CITY OF NEWPORT, KENTUCKY

LIST OF PRINCIPAL OFFICIALS

For the Year Ended June 30, 2017

Mayor

Jerry Peluso

Commissioners

Thomas L. Guidugli, Jr.

Frank T. Peluso, Sr.

Elisabeth Fennell

Kenneth Rechtin

City Manager

Thomas J. Fromme

Department Heads

Fire/EMS Chief - William Darin

Chief of Police - Thomas Collins

Development Services - Greg Tulley

Community Services - Doug Roell

Finance Officer - Leonard Kuntz

Office of City Manager

City Attorney - Daniel R. Braun

City Clerk - Amy B. Able

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Commission
City of Newport, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the discretely presented component unit of the City of Newport, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of the City of Newport, Kentucky, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12-22, budgetary comparison information on pages 69-75, schedule of proportionate share of the net pension liability and schedule of contributions on pages 76-83 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newport, Kentucky's basic financial statements. The introductory section, combining nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2018, on our consideration of the City of Newport, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Newport, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
February 1, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of City of Newport, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the City's basic financial statements, which begin on page 23.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 23 and 24) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 25. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

GASB 68

Passed in June, 2012, the new standards are intended to: enhance usefulness of employer-level pension information in financial reports, improve transparency —Kentucky Retirement Systems – County Employee Retirement System's liability is shared by all participants (employers) in the plan, and make it easier to compare public pension plans by standardizing financial reporting requirements. GASB 68 requires the annual *government-wide* financial statements to include the proportionate share of **net pension liability**, the proportionate share of **pension expense**, additional pension-related note disclosures (**Notes to Financial Statement, page 52**), and additional pension-related **Required Supplemental Information**. The City's calculated share for FY 17 is \$22,514,924.

It is a standard for preparing financial statements, not for funding, and contribution rates will be determined in the same manner as in the past. Employers, like the City of Newport, will now be required to account for their share of the unfunded liability but they are not required to fund that liability beyond the rates established in accordance with KRS 61.565(6).

Reporting the City as a Whole

Financial Highlights (with GASB 68)

- The assets of the City exceeded its general liabilities at the close of the most recent year by **\$5,865,158** with the addition of the unfunded pension liability of \$22,514,924. This is the City's net position. For the statement of net position, refer to page 23.

- The City's total net position improved this year by **\$1,160,123** over last year. Net position of governmental activities increased **\$946,080** and net position of business-type activities increased by **\$214,043**. The changes in net position were mostly the result in net investment in capital assets related to a new Fire Engine/Police Cruisers and continued investment in street resurfacing. As of June 30, 2017, the City's governmental funds reported a combined ending fund balance of **\$7,900,674**, a decrease of \$380,687 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was **\$3,915,570**, an increase of **\$378,326** over fiscal year 2016. An increase in unrestricted cash due to higher revenues and reduction in debt service from the refunding of the G.O. 2007A bonds.
- The City's total debt decreased by **\$3,260,066** due to the retirement of the G.O. Series 2003 (City/Fire Building) and regularly scheduled principal payments.
 - Newport's debt total, including general obligation and revenue bonds and lease financed, is \$43,820,566. Of that, \$21,885,000 is related to Newport on the Levee garage, leaving \$21,935,566 related to general fund obligations.

Financial movement without consideration of GASB 68 (pension liability) is as follows:

- The governmental assets outpaced liabilities by \$16,524,886.
- Total net position (including business [refuse and NOL] activity) improved by \$783,668, governmental activities by \$767,655, business activities increased by \$16,012.
- Fund and debt figures are unchanged.

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account when they are measurable, regardless of when cash is received or paid.

These two statements report the City's *net position* and changes in them. You can think of the City's net position, the difference between assets, what the taxpayers own, and liabilities, what the taxpayers owe, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base, franchise fee base, and the condition of the City's capital assets (roads, buildings, equipment and sidewalks) to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities:** most of the City's basic services are reported here, including the police, fire, emergency medical services, street maintenance, parks and recreation, and general administration. Payroll license fees, insurance license fees, property taxes, and gross receipts license fees finance most of these activities.
- **Business-type activities:** the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's refuse operations and Newport on the Levee parking operations are reported in this activity.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analyses of the City's major funds begin on page 25 and provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law. However, the Board of Commissioners establishes many other funds to help it control and manage money for particular purposes (i.e. Community Development Fund and Capital Projects Fund). The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides (***i.e. general fund, community development and capital projects***). Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation beside the fund financial statements.

Proprietary funds: When the City charges customers for the full cost of the services it provides, whether to outside customers or to other units of the City, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. ***For Newport, these are the Refuse (solid waste) and Newport on the Levee Garage funds.***

THE CITY AS A WHOLE

The statement of net position presents information on all of the City of Newport's assets and liabilities, with the differences between the two reported as net position. For the year ended June 30, 2017, net position changed as follows:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 9,974,851	\$ 10,323,388	\$ 6,250,003	\$ 6,120,642	\$ 16,224,854	\$ 16,444,030
Capital assets	30,792,662	30,199,894	23,984,182	25,657,781	54,776,844	55,857,675
Total assets	\$ 40,767,513	\$ 40,523,282	\$ 30,234,185	\$ 31,778,423	\$ 71,001,698	\$ 72,301,705
Deferred outflows of resources	\$ 5,454,892	\$ 4,290,420	\$ 54,787	\$ 42,096	\$ 5,509,679	\$ 4,332,516
	\$ 5,454,892	\$ 4,290,420	\$ 54,787	\$ 42,096	\$ 5,509,679	\$ 4,332,516
Long-term liabilities	\$ 45,524,975	\$ 43,404,715	\$ 22,114,107	\$ 22,085,404	\$ 67,639,082	\$ 65,490,119
Other liabilities	1,509,693	3,167,330	1,497,444	3,271,737	3,007,137	6,439,067
Total liabilities	\$ 47,034,668	\$ 46,572,045	\$ 23,611,551	\$ 25,357,141	\$ 70,646,219	\$ 71,929,186
Deferred inflows of resources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net position:						
Net Investment in capital assets	\$ 12,675,293	\$ 11,317,581	\$ 2,099,182	\$ 2,052,781	\$ 14,774,475	\$ 13,370,362
Restricted	3,293,973	4,141,909	4,390,759	4,283,578	7,684,732	8,425,487
Unrestricted	(16,781,529)	(17,217,833)	187,480	127,019	(16,594,049)	(17,090,814)
Total net position	\$ (812,263)	\$ (1,758,343)	\$ 6,677,421	\$ 6,463,378	\$ 5,865,158	\$ 4,705,035
(without pension liability)	\$ 16,542,886	\$ 14,829,150				

There was an increase of **\$946,080** in net position for governmental activities. Capital assets increased based on several large 'construction-in-progress' (CIP) items: Riverfront Commons Phase III, Carothers Road Phase II, Grandview Slide Repair and the Mast Arm Pole update. Non-current liabilities due after one year were lowered by \$1,559,346 through the payoff of one bond series and scheduled payments made on the others.

There was an increase in net position of **\$214,043** for business-type activities resulting primarily from principal payments on the Series-A bonds, even though parking revenues declined by \$528,000.

Governmental Activities

Governmental activities increased the net position of the City of Newport by **\$943,080** during FY2017 as summarized on the following chart:

Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
<u>Program revenues:</u>						
Charges for services	\$ 1,154,431	\$ 1,156,264	\$ 6,305,279	\$ 6,427,682	\$ 7,459,710	\$ 7,583,946
Operating grants and contributions	897,990	968,693	-	-	897,990	968,693
Capital grants and contributions	1,486,750	1,028,185	-	-	1,486,750	1,028,185
<u>General revenues:</u>						
Property taxes	2,133,032	2,072,412	-	-	2,133,032	2,136,272
Other taxes	290,128	311,491	-	-	290,128	247,631
Payroll license fees	6,623,813	6,201,961	-	-	6,623,813	6,201,961
Gross receipts license fees	1,771,847	2,026,947	-	-	1,771,847	2,026,947
Insurance premium license fees	3,122,632	2,861,193	-	-	3,122,632	2,861,193
Other licenses and permits	650,769	579,216	-	-	650,769	579,216
Franchise fees	595,515	574,829	-	-	595,515	574,829
Other uses of property	2,368,475	1,413,721	-	-	2,368,475	1,413,721
Grants - non-program specific	-	-	-	-	-	-
Other	94,156	39,948	308,288	304,957	402,444	344,905
Total revenues	\$ 21,189,538	\$ 19,234,860	\$ 6,613,567	\$ 6,732,639	\$ 27,803,105	\$ 25,967,499
Expenses:						
General government	\$ 3,856,204	\$ 2,961,163	\$ -	\$ -	\$ 3,856,204	\$ 2,961,163
Police	5,541,681	5,438,311	-	-	5,541,681	5,438,311
Fire	5,253,734	5,272,373	-	-	5,253,734	5,272,373
Development services	1,542,152	809,960	-	-	1,542,152	809,960
Community services	3,164,224	3,233,087	-	-	3,164,224	3,233,087
Municipal complex	290,707	310,673	-	-	290,707	310,673
Interest on long-term debt	614,309	760,692	-	-	614,309	760,692
Solid waste collection	-	-	1,234,511	1,216,349	1,234,511	1,216,349
Parking facility operation	-	-	5,116,313	5,320,849	5,116,313	5,320,849
Total expenses	\$ 20,263,011	\$ 18,786,259	\$ 6,350,824	\$ 6,537,198	\$ 26,613,835	\$ 25,323,457
Increase in net position before transfers	926,527	448,601	262,743	195,441	1,189,270	644,042
Gain (loss) on disposal of assets	15,853	(1,000)	-	-	15,853	(1,000)
Transfers	3,700	78,357	(48,700)	(47,257)	(45,000)	31,100
Increase in net position	\$ 946,080	\$ 525,958	\$ 214,043	\$ 148,184	\$ 1,160,123	\$ 674,142
Net position - Beginning of year	(1,758,343)	(2,284,301)	6,463,378	6,315,194	4,705,035	4,030,893
Prior period adjustment (GASB 68)	-	-	-	-	-	-
Net position - End of year	\$ (812,263)	\$ (1,758,343)	\$ 6,677,421	\$ 6,463,378	\$ 5,865,158	\$ 4,705,035

- Total revenues for the City's governmental activities totaled **\$21,189,538** compared to **\$19,234,860** last year.
- Payroll license fees totaled **\$6,623,813** or **31.3%** of the total revenues. This was an increase of **\$421,852** from last year. There were significant increases stemming from Defender Direct and P.L. Marketing's continued expansion at One Riverfront Place.
- Insurance premium license fees represented **\$3,122,632** or **14.7%** of total revenues. There was an increase of \$261,439 from the prior year's fees.
- The third largest category of governmental revenues was property tax collection, which includes payments in lieu of property taxes, with a total of **\$2,133,032**, or **10.1%** of total revenues, a slight increase of **\$60,620**.
- Gross receipts license fees totaled **\$1,771,847** and accounted for 8.36% of total revenues. This amount represents a decrease of **\$255,100** from the previous year. This directly relates to the reduction in pre-pay fees for larger construction projects.
- There was an increase in Other Uses of Property from \$1,413,721 up to \$2,368,475. This is directly related to the sale of the Ford Lot property.
- This year total expenses for the City's governmental activities were **\$20,263,011** compared to **\$18,786,259** last year. Further explanation can be found below in ***Financial Analysis of the Government's Funds***.

Business-type Activities

- Revenues for business-type activities totaled **\$6,613,567**, compared to last fiscal year's total of **\$6,732,639**. Of this total, **\$6,305,279** or **95%** was from charges from services. Total revenue showed a decrease of \$119,072, which stems from a decline in parking revenues from the Newport on the Levee garage.
- Expenses for business-type activities totaled **\$6,350,824** versus **\$6,537,198** last fiscal year. Total expenses decreased \$186,374 largely due to FY'16's purchase of a new street sweeper.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on revenues, expenditures, and net spendable resources.

As of **June 30, 2017**, the City's governmental funds reported combined ending fund balance of **\$7,900,674**, a decrease of **\$380,687** from the prior year. Of the total fund balance, the unassigned portion of the balance is **\$3,915,570**.

The General Fund is the main operating fund of the City. At the end of the fiscal year, the total fund balance in the General Fund was **\$7,210,249**. This represents a decrease of **\$468,941** over the prior year. The main reason for this was an increase in 'Transfers Out to Other Funds'.

While revenues have been trending upward, it is merely a matter of time before expenses could outpace realized gains; therefore, the Finance Department continues to recommend items that will stabilize future budgets. Those are:

- Adopting a property tax rate that takes the maximum 4% increase allowed by Kentucky State Statutes. This could lead to an increase in total tax revenue of \$80,000 to \$100,000.
- More useful and productive monitoring of departmental operational expenses.
- Reduced reliance on short-term borrowing.
- Strategic plan for capital needs replacement.
- Continued education for department heads on budget tracking.
- Implementation and enforcement of written standard procedures in all segments of the Finance and Administration Department.
- Continue to implement recommendations from the Audit team.

The Community Development Fund's fund balance increased **\$36,225**. At the end of the fiscal year, the total fund balance in the Community Development Fund was **\$520,354**. Funds from Community Development have been earmarked for two purposes. First, a Monmouth Street improvement project at an estimated cost of \$380,000. Second, the Business Corridor Facade program estimated at \$232,000, whose purpose is to reimburse business owners on Monmouth Street, York Street, and Washington Avenue up to \$7,500 toward an upgrade to the street front.

The Capital Project Fund's fund balance increased **\$52,029**. At the end of the fiscal year, the total fund balance in the Capital Projects Fund was **\$170,071**. Funds from Capital Projects are being used to make significant infrastructure improvements in the City through the use of grants and for street repaving. Many grants are matching in nature and require the City to match at least 20% of the total grant. The City is usually responsible for any and all overruns. The matches must be included in the budgeted figures to accurately anticipate balanced funds.

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements. See "Business-type Activities" above.

GENERAL FUND BUDGETARY HIGHLIGHTS

Toward the end of the fiscal year, the Board of Commissioners revise the General Fund budget to make any necessary adjustments to beginning fund balance and to increase/decrease revenues and expenditures to more closely reflect the anticipated actual revenues and expenditures for the year.

The amended General Fund revenue budget (excluding beginning budgetary fund balance) was **\$5,879,224** higher than the original budget amount. The most significant changes were as follows:

- **\$1,698,640** increase in Uses of Property due to Ford Lot sale being moved from FY'16 to FY'17 per audit adjustment.
- **\$3,614,880** increase in Other Financing as G.O. Bond Series 2016 proceeds were not originally included.

The revised General Fund expense budget (including transfers) was approximately **\$7,563,847** higher than the original appropriation.

• General Government	\$ 1,681,996
• Police Department	\$ 69,507
• Fire Department	\$ 193,645
• Development Services	\$ 104,870
• Community Services	(\$ 57,857)
• Municipal Complex	(\$ 11,485)
• Capital Outlay	\$ 443,651
• Debt service	\$ 5,610
• Transfers out	\$ 1,838,590
• Other Financing Uses	<u>\$ 3,295,320</u>
Total:	\$ 7,563,847

Actual General Fund revenues (including transfers in) were **\$512,696** higher than the amended budget numbers. There were several variances, both high and low, but the majority increase was from licenses and permits, which increased by around \$400,000.

The actual expenses for the General Fund were **\$629,504** lower than the amended budget. Comprising this total were departmental results as listed:

General Government (City Manager's Office and Finance Dept.)	(\$ 16,177)
Police Department	\$ 32,956
Fire Department	(\$ 63,805)
Development Services (Building, Zoning, Code Enforcement)	(\$ 5,876)

Community Services (Admin., Pool, Public Works, Parks & Recreation)	(\$ 113,500)
Municipal Complex	(\$ 8,713)
Capital Outlay*	(\$ 1,293)
Debt Service	\$ 2,847
Transfers out	(\$ 455,942)
<u>Other Financing</u>	<u>(\$ 1)</u>
TOTAL:	(\$ 629,504)

* Capital Outlay is reflected in each department of the Budget, but broken out in a separate category for purposes of the Audit.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

At year-end, the City had **\$44,692,377** in total outstanding payables, notes, capital leases, compensated absences and bonds compared to **\$48,040,591** last year.

Compensated absences rose \$50,211. The City's total *long-term* debt for governmental activities and business type activities decreased due to the payoff of scheduled debt.

DEBT PRINCIPAL

	Governmental Activities		Business-type Activities		Totals	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Bonds payable						
(backed by City revenues)	\$ 14,775,000	\$ 15,465,000	\$ -	\$ -	\$ 14,775,000	\$ 15,465,000
Bonds payable						
(backed by fee revenues)	-	-	21,885,000	23,605,000	21,885,000	23,605,000
Compensated absences	1,220,247	1,170,036	-	-	1,220,247	1,170,036
Notes payable						
(backed by City revenues)	6,812,130	7,800,555	-	-	6,812,130	7,800,555
Totals	<u>\$ 22,807,377</u>	<u>\$ 24,435,591</u>	<u>\$ 21,885,000</u>	<u>\$ 23,605,000</u>	<u>\$ 44,692,377</u>	<u>\$ 48,040,591</u>

For additional information concerning the City's debt please refer to Notes E and F, to the financial statements, as well as Note G, pages 47 – 52.

Capital Assets

At the end of June 30, 2004, the City reported for the first time all of its infrastructure. The infrastructure is reported at cost along with the accumulated depreciation. At June 30, 2017, capital assets, before accumulated depreciation, amounted to **\$116,151,109** million including equipment, vehicles, buildings, park facilities, streets and sidewalks. This represents a net increase of **\$1,608,372** or 1.4 percent, over last year.

Capital assets for governmental and business-type activities are summarized in the following table:

	Governmental Activities		Business-type Activities		Totals	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 6,645,184	\$ 6,645,184	\$ 9,196,274	\$ 9,196,274	\$ 15,841,458	\$ 15,841,458
Land improvements	43,575,736	42,659,721	26,281	26,281	43,602,017	42,686,002
Buildings and systems	7,139,971	7,123,921	40,363,607	40,316,840	47,503,578	47,440,761
Parking garage	-	-	-	-	-	-
Machinery and equipment	2,656,805	2,716,378	-	-	2,656,805	2,716,378
Licensed vehicles	5,376,915	4,957,448	253,750	253,750	5,630,665	5,211,198
Non licensed vehicles	253,494	253,494	-	-	253,494	253,494
Construction in progress	663,093	393,446	-	-	663,093	393,446
Subtotals	\$ 66,311,198	\$ 64,749,592	\$ 49,839,912	\$ 49,793,145	\$ 116,151,110	\$ 114,542,737
Accumulated depreciation	35,518,536	34,549,698	25,855,730	24,135,364	61,374,266	58,685,062
Net Assets	<u>\$ 30,792,662</u>	<u>\$ 30,199,894</u>	<u>\$ 23,984,182</u>	<u>\$ 25,657,781</u>	<u>\$ 54,776,844</u>	<u>\$ 55,857,675</u>

This year's major additions included:

-Duke: LED Lighting Phase I	\$ 104,660
-Mast Arm Poles	\$ 137,700
-Grandview Slide Repair II	\$ 203,520
-Street resurfacing (various)	\$ 446,700
-Police Cars (9) New/Used	\$ 187,700
-Fire Pumper # 903	\$ 500,000
	<u>\$ 1,580,280</u>

For additional information concerning the City's capital assets please refer to Note D in the Notes to Financial Statements on pages 46 and 47.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

As previously mentioned in the letter of transmittal on pages 4 and 5, overall economic outlook for the City is positive. Several large and small scale projects are in early stages of development, and interest in development opportunities along the New State Route 9 on the City's west side continues to grow. It is noteworthy to also mention two tax increment financing districts have been adopted, meaning that those

particular areas will be eligible to receive tax funding from Campbell County and the Commonwealth of Kentucky in addition to funding from the City for use specifically in those areas. Ovation (a Signature TIF), a mixed use development at the confluence of the Licking and Ohio Rivers, is anticipated to progress in the near future.

For fiscal year 2018, General Fund revenues are projected at \$20,453,250; however, revenues are trending slightly higher than anticipated. The fiscal year 2017 and beyond revenue budgets are tailored to increase the City's reserves gradually and reduce reliance on short term borrowing and grant funds for capital expenditures.

Operating expenditures are expected to increase as well, due mostly to inflation and gradual addition of positions and wage increases. The most recent actuary from the legacy pension funds addressed the need for future stabilization of the fiduciary funds (employee pension/police and fire pension). This continues to be an area of discussion.

NEWPORT FOUNDATION: 501(c)3

The Newport Foundation operates as a component unit of the City with the mission of investing in the City through charitable donations for public programs and events as well as the furtherance of improving housing stock in partnership with the Housing Authority of Newport (registered as Neighborhood Foundations, Inc.) and its non-profit arms of Newport Millennium Housing Corporations III and IV.

For the fiscal year ended June 30, 2017, the net position of the Newport Foundation decreased by **\$23,429** leaving a balance of **\$86,440** resulting from a decrease in revenues and an increase in contractual expenses.

Plans were made in FY 17 for the separation of this entity from the oversight of the City to begin in FY 18.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager's Office or the Department of Finance and Administration at 998 Monmouth Street, Newport, Kentucky 41071.

You may also email your request to lkuntz@newportky.gov.

BASIC FINANCIAL STATEMENTS

CITY OF NEWPORT, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-type Activities	Total	Discretely Presented Component Unit
Assets				
Cash and cash equivalents	\$ 2,919,183	\$ 655,430	\$ 3,574,613	\$ 23,076
Receivables:				
Property taxes	198,241	-	198,241	-
Loans	395,793	-	395,793	-
Accounts	3,050,960	193,421	3,244,381	37,612
Intergovernmental	43,710	-	43,710	-
Accrued interest	-	152,196	152,196	-
Prepaid expenses	706	-	706	-
Assets held for sale	-	-	-	82,758
Noncurrent assets:				
Restricted cash	3,293,973	896,706	4,190,679	-
Restricted investments	-	4,423,000	4,423,000	-
Internal balances	70,750	(70,750)	-	-
Due from (to) component unit	1,535	-	1,535	(1,535)
Capital assets:				
Land and construction in progress	7,308,277	9,196,274	16,504,551	-
Depreciable capital assets, net	<u>23,484,385</u>	<u>14,787,908</u>	<u>38,272,293</u>	-
Total Assets	<u>40,767,513</u>	<u>30,234,185</u>	<u>71,001,698</u>	<u>141,911</u>
Deferred Outflows of Resources				
Deferred outflows - defeasance on refunding	524,224	-	524,224	-
Deferred outflows - pension	<u>4,930,668</u>	<u>54,787</u>	<u>4,985,455</u>	-
Total deferred outflows	<u>5,454,892</u>	<u>54,787</u>	<u>5,509,679</u>	-
Liabilities				
Accounts payable	859,498	191,226	1,050,724	47,003
Accrued liabilities	531,744	4,735	536,479	-
Accrued interest payable	118,451	928,947	1,047,398	-
Unearned revenue	-	372,536	372,536	8,468
Noncurrent liabilities:				
Compensated absences	1,220,247	-	1,220,247	-
Retainage payable	83,345	-	83,345	-
Net pension liability	22,285,817	229,107	22,514,924	-
Other noncurrent liabilities				
Due within one year	1,686,736	1,865,000	3,551,736	-
Due after one year	<u>20,248,830</u>	<u>20,020,000</u>	<u>40,268,830</u>	-
Total Liabilities	<u>47,034,668</u>	<u>23,611,551</u>	<u>70,646,219</u>	<u>55,471</u>
Deferred Inflows of Resources				
Deferred inflows - pension	-	-	-	-
Net Position				
Net investment in capital assets	12,675,293	2,099,182	14,774,475	-
Restricted for:				
Debt service	-	4,390,759	4,390,759	-
Other	3,293,973	-	3,293,973	-
Unrestricted	<u>(16,781,529)</u>	<u>187,480</u>	<u>(16,594,049)</u>	<u>86,440</u>
Total Net Position	<u>\$ (812,263)</u>	<u>\$ 6,677,421</u>	<u>\$ 5,865,158</u>	<u>\$ 86,440</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
Functions/Programs:					Primary Government			Discretely Presented Component Unit
Primary government:		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities:	Expenses							
General government	\$ 3,856,204	\$ 248,633	\$ 79,063	\$ -	\$ (3,528,508)	\$ -	\$ (3,528,508)	\$ -
Police	5,541,681	297,510	422,947	-	(4,821,224)	-	(4,821,224)	-
Fire/EMS	5,253,734	475,917	-	496,288	(4,281,529)	-	(4,281,529)	-
Development services	1,542,152	43,988	-	671,921	(826,243)	-	(826,243)	-
Community services	3,164,224	88,383	395,980	318,541	(2,361,320)	-	(2,361,320)	-
Municipal complex	290,707	-	-	-	(290,707)	-	(290,707)	-
Interest on long-term debt	614,309	-	-	-	(614,309)	-	(614,309)	-
Total governmental activities	20,263,011	1,154,431	897,990	1,486,750	(16,723,840)	-	(16,723,840)	-
Business-type activities:								
Refuse	1,234,511	1,384,000	-	-	-	149,489	149,489	-
Newport on the Levee	5,116,313	4,921,279	-	-	-	(195,034)	(195,034)	-
Total business-type activities	6,350,824	6,305,279	-	-	-	(45,545)	(45,545)	-
Total primary government	\$ 26,613,835	\$ 7,459,710	\$ 897,990	\$ 1,486,750	(16,723,840)	(45,545)	(16,769,385)	-
Discretely presented component unit	\$ 279,177	\$ 233,755	\$ -	\$ -				(45,422)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					2,423,160	-	2,423,160	-
License fees:								
Payroll/Occupational licenses					8,395,660	-	8,395,660	-
Insurance premiums					3,122,632	-	3,122,632	-
Other permits and licenses					650,769	-	650,769	-
Franchise fees					595,515	-	595,515	-
Other uses of property					2,368,475	-	2,368,475	-
Interest					8,560	308,288	316,848	40
Miscellaneous					85,596	-	85,596	-
Total general revenues					17,650,367	308,288	17,958,655	40
Gain (loss) on disposal of assets					15,853	-	15,853	(23,047)
Transfers from (to) component unit					(45,000)	-	(45,000)	45,000
Transfers in (out)					48,700	(48,700)	-	-
Change in net position					946,080	214,043	1,160,123	(23,429)
Net position - beginning					(1,758,343)	6,463,378	4,705,035	109,869
Net position - ending					\$ (812,263)	\$ 6,677,421	\$ 5,865,158	\$ 86,440

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General	Community Development	Capital Projects	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,986,166	\$ 520,356	\$ 286,833	\$ 2,793,355
Receivables:				
Property taxes	198,241	-	-	198,241
Loans	-	395,793	-	395,793
Accounts	3,014,878	-	-	3,014,878
Intergovernmental			43,710	43,710
Prepays and other assets	706	-	-	706
Due from other funds	377,550	-	512,593	890,143
Due from component unit	2,034	-	-	2,034
Restricted assets:				
Cash and cash equivalents	3,293,973	-	-	3,293,973
Total Assets	<u>\$ 8,873,548</u>	<u>\$ 916,149</u>	<u>\$ 843,136</u>	<u>\$ 10,632,833</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 264,516	\$ 114,013	\$ 366,265	\$ 744,794
Accrued liabilities	531,744	-	-	531,744
Due to other funds	512,593	-	306,800	819,393
Due to component unit	500	-	-	500
Unearned revenue	353,946	281,782	-	635,728
Total Liabilities	<u>1,663,299</u>	<u>395,795</u>	<u>673,065</u>	<u>2,732,159</u>
Fund Balances:				
Unspendable	706	-	-	706
Restricted	3,293,973	-	-	3,293,973
Committed	-	-	-	-
Assigned	-	520,354	170,071	690,425
Unassigned	3,915,570	-	-	3,915,570
Total Fund Balances	<u>7,210,249</u>	<u>520,354</u>	<u>170,071</u>	<u>7,900,674</u>
Total Liabilities and Fund Balances	<u>\$ 8,873,548</u>	<u>\$ 916,149</u>	<u>\$ 843,136</u>	<u>\$ 10,632,833</u>

Total governmental fund balances \$ 7,900,674

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds,	
net of accumulated depreciation	30,792,662
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds	635,728
Net position of internal service fund	47,206
Accrued interest payable on long-term debt	(118,451)
Deferred outflows - defeasance on bond refunding	524,224
Retainage payable is not due and payable in the current period and therefore is not reported in the funds	(83,345)
Long-term liabilities and related pension deferred inflows/outflows, are not due and payable in the current period and therefore are not reported in the funds	(40,510,961)

Net position of governmental activities \$ (812,263)

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	General	Community Development	Capital Projects	Total Governmental Funds
Revenues				
Property taxes	\$2,428,217	\$ -	\$ -	\$ 2,428,217
Licenses and permits	12,169,061	-	-	12,169,061
Intergovernmental	1,468,664	592,331	318,541	2,379,536
Fines and forfeitures	90,053	-	-	90,053
Charges for services	1,044,991	-	-	1,044,991
Uses of property	2,974,069	53,875	-	3,027,944
Interest	7,440	603	407	8,450
Refunds and reimbursements	146,434	-	1,793	148,227
Miscellaneous	5,427	-	-	5,427
Total Revenues	<u>20,334,356</u>	<u>646,809</u>	<u>320,741</u>	<u>21,301,906</u>
Expenditures				
Current:				
General government	3,719,893	-	-	3,719,893
Police	4,919,023	-	-	4,919,023
Fire/EMS	4,516,539	-	-	4,516,539
Development services	773,197	655,058	-	1,428,255
Community services	1,932,744	-	216,506	2,149,250
Municipal complex	191,080	-	-	191,080
Capital outlay	836,986	-	1,130,620	1,967,606
Debt service:				
Principal	1,703,425	-	-	1,703,425
Interest	658,032	-	-	658,032
Total Expenditures	<u>19,250,919</u>	<u>655,058</u>	<u>1,347,126</u>	<u>21,253,103</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,083,437</u>	<u>(8,249)</u>	<u>(1,026,385)</u>	<u>48,803</u>
Other Financing Sources (Uses)				
Bond refunding	(3,221,130)	-	-	(3,221,130)
Cost of bond issuance	(74,189)	-	-	(74,189)
Bond proceeds, including premium	3,297,129	-	-	3,297,129
Transfers in	348,700	44,474	1,378,414	1,771,588
Transfers out	(1,902,888)	-	(300,000)	(2,202,888)
Total Other Financing Sources (Uses)	<u>(1,552,378)</u>	<u>44,474</u>	<u>1,078,414</u>	<u>(429,490)</u>
Net Change in Fund Balances	(468,941)	36,225	52,029	(380,687)
Fund Balances - Beginning	<u>7,679,190</u>	<u>484,129</u>	<u>118,042</u>	<u>8,281,361</u>
Fund Balances - Ending	<u>\$7,210,249</u>	<u>\$ 520,354</u>	<u>\$ 170,071</u>	<u>\$ 7,900,674</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds \$ (380,687)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Capital asset purchases capitalized	1,967,606
Depreciation expense	(1,332,056)

Revenues in the statement of activities that do not provide current financial resources are fully deferred in the funds.	(34,341)
--	----------

Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,703,425
--	-----------

Gain on disposal of fixed assets that are only recorded on government-wide financial statements.	15,853
--	--------

Proceeds from the sale of capital assets are only reported in the governmental funds.	(78,138)
---	----------

Net proceeds issued to refund bonds outstanding is an other financing source in the governmental funds but increases long-term liabilities in the statement of net position.	(3,297,129)
--	-------------

Refunding of bonds outstanding is an other financing use in the governmental funds but decreases long-term liabilities in the statement of net position.	3,221,130
--	-----------

Non-current retainage payable is recorded as an expense on the government-wide financial statements.	(63,841)
--	----------

Premiums on bond issuances are amortized through expense in the government-wide financial statements.	23,770
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Defeasance on bond issuances are amortized through expense in the government-wide financial statements.	(38,316)
---	----------

Change in the net pension liability.	(767,656)
--------------------------------------	-----------

Accrued interest on long-term debt is reported in the government-wide financial statements and not reported in the governmental funds. This is the change in the amount of interest accrued through year end.	19,953
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An internal service fund is used by management to charge the costs of certain activities, such as health and dental insurance to individual funds. The net revenues (expenses) of the internal service fund are reported with governmental activities.	36,718
--	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds, such as compensated absences.	(50,211)
---	----------

Change in net position of governmental activities	<u>\$ 946,080</u>
--	--------------------------

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	Business-type Activities			Internal Service Funds
		Newport on the Levee	Total	Health and Dental
Assets	Refuse			
Current assets:				
Cash and cash equivalents	\$ 469,313	\$ 186,117	\$ 655,430	\$ 125,828
Accounts receivable (net of allowance)	193,421	-	193,421	36,082
Due from other funds	-	-	-	-
Accrued interest receivable	-	152,196	152,196	-
Total current assets	662,734	338,313	1,001,047	161,910
Restricted assets:				
Restricted cash	-	896,706	896,706	-
Restricted investments	-	4,423,000	4,423,000	-
Total restricted assets	-	5,319,706	5,319,706	-
Noncurrent assets:				
Capital assets (net of depreciation):				
Land	-	9,196,274	9,196,274	-
Vehicles	169,167	-	169,167	-
Building	-	14,618,741	14,618,741	-
Total noncurrent assets	169,167	23,815,015	23,984,182	-
Total Assets	831,901	29,473,034	30,304,935	161,910
Deferred Outflows of Resources				
Deferred outflows - pension	54,787	-	54,787	-
Liabilities				
Current liabilities:				
Accounts payable	81,146	110,080	191,226	114,704
Accrued liabilities	4,735	-	4,735	-
Accrued interest payable	-	928,947	928,947	-
Unearned revenue	-	372,536	372,536	-
Bonds payable, current	-	1,865,000	1,865,000	-
Due to other funds	70,750	-	70,750	-
Total current liabilities	156,631	3,276,563	3,433,194	114,704
Noncurrent liabilities:				
Bonds payable	-	20,020,000	20,020,000	-
Net pension liability	229,107	-	229,107	-
Total noncurrent liabilities	229,107	20,020,000	20,249,107	-
Total Liabilities	385,738	23,296,563	23,682,301	114,704
Deferred Inflows of Resources				
Deferred inflows - pension	-	-	-	-
Net Position				
Net investment in capital assets	169,167	1,930,015	2,099,182	-
Restricted	-	4,390,759	4,390,759	-
Unrestricted	331,783	(144,303)	187,480	47,206
Total Net Position	\$ 500,950	\$ 6,176,471	\$ 6,677,421	\$ 47,206

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2017

	Business-type Activities			Internal Service Funds
	Refuse	Newport on the Levee	Total	Health and Dental
Operating Revenues				
Charges for sales and services:				
Refuse fees	\$ 1,343,611	\$ -	\$ 1,343,611	\$ -
Parking fees	-	2,475,628	2,475,628	-
PILOT fees	-	875,000	875,000	-
Aquarium and IMAX rent assignment	-	735,651	735,651	-
Developer guaranty payment	-	835,000	835,000	-
Penalties	40,389	-	40,389	-
Other services	-	-	-	1,337,345
Total Operating Revenues	<u>1,384,000</u>	<u>4,921,279</u>	<u>6,305,279</u>	<u>1,337,345</u>
Operating Expenses				
Cost of sales and services	1,183,761	1,516,778	2,700,539	1,735,737
Depreciation	50,750	1,669,616	1,720,366	-
Total Operating Expenses	<u>1,234,511</u>	<u>3,186,394</u>	<u>4,420,905</u>	<u>1,735,737</u>
Net Operating Income (Loss)	<u>149,489</u>	<u>1,734,885</u>	<u>1,884,374</u>	<u>(398,392)</u>
Non-Operating Revenues (Expenses)				
Interest income	759	307,529	308,288	110
Interest expense	-	(1,929,919)	(1,929,919)	-
Total Non-Operating Income (Loss)	<u>759</u>	<u>(1,622,390)</u>	<u>(1,621,631)</u>	<u>110</u>
Transfer in (out)	<u>(48,700)</u>	<u>-</u>	<u>(48,700)</u>	<u>435,000</u>
Net Income (loss)	101,548	112,495	214,043	36,718
Net Position-Beginning Of Year	<u>399,402</u>	<u>6,063,976</u>	<u>6,463,378</u>	<u>10,488</u>
Net Position-End Of Year	<u>\$ 500,950</u>	<u>\$ 6,176,471</u>	<u>\$ 6,677,421</u>	<u>\$ 47,206</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2017

	Business-Type Activities			Internal Service Funds
		Newport on the		Health and Dental
	Refuse	Levee	Total	
Cash flows from operating activities				
Cash received from customers	\$ 1,380,046	\$ 5,014,954	\$ 6,395,000	\$ 1,309,647
Cash paid for employee services and benefits	(157,932)	-	(157,932)	-
Cash paid to suppliers	(1,009,230)	(1,593,311)	(2,602,541)	(1,787,730)
Net cash provided (used) by operating activities	<u>212,884</u>	<u>3,421,643</u>	<u>3,634,527</u>	<u>(478,083)</u>
Cash flows from noncapital financing activities:				
Transfer from (to) other funds	(52,548)	-	(52,548)	435,000
Net cash provided (used) by noncapital financing activities	<u>(52,548)</u>	<u>-</u>	<u>(52,548)</u>	<u>435,000</u>
Cash flows from capital and related financing activities				
Capital assets purchased	-	(46,767)	(46,767)	-
Interest paid on capital debt	-	(2,001,944)	(2,001,944)	-
Principal paid on debt	-	(1,720,000)	(1,720,000)	-
Net cash (used by) financing activities	<u>-</u>	<u>(3,768,711)</u>	<u>(3,768,711)</u>	<u>-</u>
Cash flows from investing activities				
Interest income	<u>757</u>	<u>304,857</u>	<u>305,614</u>	<u>110</u>
Net cash provided by investing activities	<u>757</u>	<u>304,857</u>	<u>305,614</u>	<u>110</u>
Net increase (decrease) in cash	161,093	(42,211)	118,882	(42,973)
Cash at beginning of year	<u>308,220</u>	<u>1,125,034</u>	<u>1,433,254</u>	<u>168,801</u>
Cash at end of year	<u>\$ 469,313</u>	<u>\$ 1,082,823</u>	<u>\$ 1,552,136</u>	<u>\$ 125,828</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 149,489	\$ 1,734,885	\$ 1,884,374	\$ (398,392)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	50,750	1,669,616	1,720,366	-
Change in net pension liability	16,012	-	16,012	-
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	(3,954)	-	(3,954)	(27,698)
Increase (decrease) in accounts payable	(31)	(76,533)	(76,564)	(51,993)
Increase (decrease) in accrued liabilities	618	-	618	-
Increase (decrease) in unearned revenue	-	93,675	93,675	-
Net cash provided (used) by operating activities	<u>\$ 212,884</u>	<u>\$ 3,421,643</u>	<u>\$ 3,634,527</u>	<u>\$ (478,083)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2017

		<u>Total Retirement Plans</u>
Assets		
Investments		
Cash balance in funds	\$ 436,826	
Bonds	153,987	
Mutual funds	771,138	
Closed end funds	341,937	
Market backed securities	140,418	
Corporate stock	<u>392,829</u>	
Total investments		<u>2,237,135</u>
Total Assets		<u>2,237,135</u>
Net Position		
Held in trust for pension benefits		<u>2,237,135</u>
Total Net Position		<u><u>\$ 2,237,135</u></u>

The accompanying notes are an integral part of these financial statements.

<p style="text-align: center;">CITY OF NEWPORT, KENTUCKY STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUNDS For the Year Ended June 30, 2017</p>

	<u>Total Retirement Plans</u>
Additions	
Contributions:	
Employer	\$ -
Total contributions	<u>-</u>
Investment earnings:	
Interest and dividends	89,995
Net appreciation in the fair value of investments, including realized gains and losses	<u>86,138</u>
Total investment earnings	<u>176,133</u>
Total Additions	<u>176,133</u>
Deductions	
Benefits	541,111
Administrative expense	<u>35,831</u>
Total Deductions	<u>576,942</u>
Change in Net Position	(400,809)
Net Position-Beginning Of Year	<u>2,637,944</u>
Net Position-End Of Year	<u>\$ 2,237,135</u>

The accompanying notes are an integral part of these financial statements.

<p style="text-align: center;">CITY OF NEWPORT, KENTUCKY STATEMENT OF NET POSITION DISCRETELY PRESENTED COMPONENT UNIT June 30, 2017</p>

	Newport Foundation
Assets	
Current assets:	
Cash and cash equivalents	\$ 23,076
Accounts receivable	37,612
Assets held for sale	82,758
Due from other funds	<u>500</u>
Total current assets	<u>143,946</u>
Total Assets	<u>143,946</u>
Liabilities	
Current liabilities:	
Accounts payable	47,003
Unearned revenue	8,468
Due to other funds	<u>2,035</u>
Total current liabilities	<u>57,506</u>
Total Liabilities	<u>57,506</u>
Net Position	
Net investment in capital assets	-
Restricted assets	-
Unrestricted	<u>86,440</u>
Total Net Position	<u>\$ 86,440</u>

The accompanying notes are an integral part of these financial statements.

<p style="text-align: center;">CITY OF NEWPORT, KENTUCKY</p> <p style="text-align: center;">STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</p> <p style="text-align: center;">DISCRETELY PRESENTED COMPONENT UNIT</p> <p style="text-align: center;">For the Year Ended June 30, 2017</p>
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	<u>Newport Foundation</u>
Operating Revenues	
Charges for sales and services:	
Special events	\$ 207,297
Miscellaneous	<u>26,458</u>
Total Operating Revenues	<u>233,755</u>
Operating Expenses	
Cost of sales and services	177,668
Contractual services	94,586
Intergovernmental expenses	30
Insurance	2,040
Materials and supplies	<u>4,853</u>
Total Operating Expenses	<u>279,177</u>
Net Operating (Loss)	<u>(45,422)</u>
Non-Operating Revenues/Expenses	
Operating transfer from General Fund	45,000
Interest income	40
(Loss) on sale of assets held for sale	<u>(23,047)</u>
Total Non-Operating Income	<u>21,993</u>
Net (Loss)	(23,429)
Net Position-Beginning Of Year	<u>109,869</u>
Net Position-End Of Year	<u>\$ 86,440</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNIT
For the Year Ended June 30, 2017

	Newport Foundation
Cash flows from operating activities	
Cash received from customers	\$ 246,776
Cash paid to suppliers	<u>(274,433)</u>
Net cash (used) by operating activities	<u>(27,657)</u>
Cash flows from investing activities	
Transfer from General Fund	44,500
Interest income	<u>40</u>
Net cash provided by investing activities	<u>44,540</u>
Net increase in cash	16,883
Cash at beginning of year	<u>6,193</u>
Cash at end of year	<u><u>\$ 23,076</u></u>
Reconciliation of operating income to net cash (used) by operating activities:	
Operating (loss)	\$ (45,422)
Adjustments to reconcile operating income to net cash (used) by operating activities	
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	19,179
Decrease (increase) in assets held for sale	(10,305)
Increase (decrease) in accounts payable	15,049
Increase (decrease) in unearned revenue	<u>(6,158)</u>
Net cash (used) by operating activities	<u><u>\$ (27,657)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Newport, Kentucky, (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

Financial Reporting Entity

The City of Newport is a municipality operating under a City Manager form of government. Legislative authority is vested in the Board of Commissioners consisting of the Mayor and four City Commissioners. As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each blended component unit of the City has a June 30 year-end. The component units discussed below are included in the City's reporting entity because of the significance of their operational and/or financial relationship with the City.

Included in the Reporting Entity:

City of Newport Employees' Retirement Fund

Certain City employees participate in the non-uniformed Employees' Retirement Fund. The fund functions for the benefit of the retirees and is governed by a seven member board of trustees: the Mayor, the four City Commissioners, the City Manager, and the Chief Financial Officer. The City is obligated to fund all pension benefit costs based upon actuarial valuations. There are no active employees in the plan.

City of Newport Policemen and Firefighters' Retirement Fund

All uniformed public employees who retired prior to August 1, 1988 participate in the Policemen and Firefighters' Retirement Fund. The fund functions for the benefit of the retirees and is governed by a four member board of trustees: the Mayor, the City Manager, and two public safety retirees. The City is obligated to fund all pension benefit costs based upon actuarial valuations. There are no active employees in the plan.

City of Newport Municipal Properties Corporation

The City of Newport Municipal Properties Corporation was formed to act as an agent and to be instrumental in the financing of public improvements and projects of a capital nature for the City and for the particular purpose of acquiring real estate located within the City and constructing, acquiring and equipping thereon capital improvements, facilities, buildings, structures and related appurtenances. The Corporation finances these projects by the issuance of debt. These debt issues are secured by 1) first mortgage liens on the projects, 2) lease and option agreements between the Corporation and the City, 3) the construction agreements and 4) pledged receipts. The lease and option agreements require the City to pay rental from specified revenues, on a yearly basis with the option to renew each year. If the City renews the lease from year-to-year, and pays the rentals for each year as stipulated, and when the Corporation has fully paid and retired all the bonds, the Corporation agrees it will convey the properties to the City free and clear.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

The Board of Directors of the Corporation consists of the Mayor and the four City Commissioners. The City Manager serves as Treasurer. The City Clerk serves as Secretary.

Newport Foundation, Inc.

The component unit's column in the government-wide financial statements includes the financial data of the City's discretely presented component units. They are reported in a separate column to emphasize that they are legally separate from the City. Newport Foundation, Inc. is included in the City's reporting entity because the primary government is able to impose its will on the organization.

The Newport Foundation was formed in March 2009 as a public charity under section 501(c)(3) of the Internal Revenue Service Code, whose purpose is to facilitate the City's many festivals and community special events. This organization provides citizens and corporate sponsors an avenue to make tax-free charitable donations to the City's community festivals. The organization also facilitates neighborhood and community improvements through the purchase and resale of real property to various neighborhood foundations for revitalization. The Foundation's officers include the City's Mayor, City Manager, City Clerk, and the City's Chief Financial Officer.

Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent, on fees and charges for services.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internal activity with the Health and Dental Fund is eliminated in the statement of activities.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than as an expenditure.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, license fees and interest are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following funds of the financial reporting entity:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The Community Development Fund is used for other community development projects, including state and federally funded programs. The Capital Projects Fund is used to account for capital projects to be financed by grants and/or financing issues.

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports on the following proprietary funds:

The Refuse Fund accounts for trash collection services provided to the residential and business owners within the City limits.

The Newport on the Levee Fund is responsible for operating the garage structure at the Newport on the Levee project and collecting other miscellaneous payments pursuant to a development agreement between the City and the project developer.

The City's only internal service fund is the self-insurance fund for the City's health and dental costs.

Additionally, the City reports two fiduciary funds. The pension trust funds account for the activities of the Policemen and Firefighters' Retirement Fund and Employees' Retirement Fund for the accumulation of resources for pension benefit payments to qualified retired employees.

The City's financial statements also include the Newport Foundation, a discretely presented component unit of the City.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Assets, Liabilities, and Net Position or Equity

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City.

The City is authorized by state statute to invest in:

- Obligations of the United States and of its agencies and instrumentalities
- Certificates of deposits
- Bankers acceptances
- Commercial paper
- Bonds of other state or local governments
- Mutual funds

Investments

In accordance with Governmental Accounting Standards Board Statement No. 31, investments held at June 30, 2017 are recorded at fair value based on quoted market prices, except as otherwise noted. The guaranteed investment contract held by the City is a nonparticipating, interest earning contract and is therefore valued on a cost basis.

Property Tax Receivable

Property taxes are levied on September 30 on property values assessed as of January 1. The taxes are billed on approximately September 30 and are due and payable on October 31. On November 1, unpaid bills become delinquent and the City may assess penalties and interest. A lien may be placed on the property on November 1.

Short-Term Inter-fund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due to/from other funds" on the balance sheet. Short-term inter-fund loans are classified as "inter-fund receivables/payables".

Inventory

Inventory is valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The cost of governmental fund-type inventory are recorded as an expenditure when consumed rather than when purchased.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017 are recorded as prepaid items utilizing the purchases method for all governmental funds.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Capital Assets

General capital assets are those assets not specifically related to activities in the proprietary fund. These assets are reported in the governmental activities column of the government-wide statement of net position. Capital assets used by the proprietary fund are reported in the business-type activities column of the government-wide statement of net position. The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as an expenditure in the governmental funds and capitalized (recorded and accounted for) in the government-wide financial statements. Infrastructure such as streets, parks, and bridges are capitalized. Capital assets are defined by the City as assets with an initial, individual cost of at least \$2,500 and an estimated useful life of two or more years. The valuation basis for capital assets are either historical costs or, where historical costs are not available, estimated historical cost based on replacement cost. Prior to July 1, 2001, governmental funds infrastructure assets had not previously been capitalized. These assets have been valued at estimated historical cost at July 1, 2003 due to the City electing to phase in the reporting of its infrastructure over three years.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements.

Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class is as follows:

	<u>Life, years</u>
Buildings	40
Building Improvements	10-20
Public Domain Infrastructure	25-40
Vehicles	5-15
Machinery and Equipment	3-5

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation pay. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are liquidated in the General Fund.

Long-Term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Net Position and Fund Balance

Net position is the difference between assets and deferred inflows of resources, and liabilities and deferred outflows of resources. Net investment in capital assets are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

The City uses funds and account groups to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Nonspendable fund balances consist of amounts that are not in spendable form; the City considers prepaid expenses and inventories to be nonspendable.

Restricted fund balances are amounts that can only be used pursuant to constraints imposed by external sources; such as bond covenant requirements, state government restrictions or the funds restricted by the will of the City's voters. These include the balances of restricted cash in the City's General Fund. The restricted cash in the General Fund represents unspent bond proceeds that will be used to fund multiple public projects.

Committed fund balances are amounts that can only be used for specific purposes as stipulated internally by the City Commission. These items can only be changed or lifted by the Commission taking the same formal action that imposed the restraint.

Assigned fund balances consists of funds that are set aside with the intent to be used for a specific purpose by the City's highest level of decision making authority or a body or official that has been given the authority to assign funds. These include residual balances from the Community Development and Capital Projects Funds.

Unassigned fund balances consist of all residual funds not included in nonspendable, restricted, committed, or assigned fund balances.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council or the finance committee has provided otherwise in its commitment or assignment actions.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Revenues, Expenditures and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for the proprietary fund are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, non-capital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities. In the fund financial statements, governmental funds are classified as follows:

- Governmental funds – by character:
 - Current – further classified by function
 - Debt service
 - Capital outlay
- Proprietary funds – by operating and non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses related to the use of economic resources.

Inter-fund Transactions

Inter-fund services provided or used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund, are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could differ from those estimates.

Management's Review of Subsequent Events

Management has evaluated events through February 1, 2018, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2017 through February 1, 2018 to disclose.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

- A. In accordance with City ordinance, prior to June 30, the City Manager submits to the Board of Commissioners, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- B. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- C. The City Manager is required by Kentucky Revised Statutes to present a quarterly report to the Board of Commissioners explaining any variance from the approved budget.
- D. Appropriations continue in effect until a new budget is adopted.
- E. The Board of Commissioners may authorize supplemental appropriations during the year.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the Board of Commissioners; however, with proper approval by the City Manager, budgetary transfers between departments can be made. All appropriations lapse at fiscal year end.

NOTE C – DEPOSITS AND INVESTMENTS

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's policy will attempt to match its investments with anticipated cash flow requirements and unless matched to a specific cash flow need, funds should not, in general, be invested in securities maturing more than 5 years from the date of purchase.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The City's custodial credit risk policy requires that all cash and investments maintained in any financial institution be collateralized, with the exception of certain certificates of deposit approved by the governing body and as outlined in the City's investment policy. It is the City's policy to permit deposits allowed by Kentucky Revised Statutes.

Cash and Cash Equivalents – The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2017, the City's deposits were entirely insured and/or collateralized with securities held by the financial institution in the City's name. At June 30, 2017, \$503,233 of deposits were insured by the FDIC and \$5,382,366 of collateral was pledged to the City by the custodial bank. In addition, the City had bank deposits of \$4,095,022 of cash equivalents invested in federal government obligations.

Investments – The City had custodial credit risk at June 30, 2017 of \$6,660,135. The related securities totaling this amount are uninsured, unregistered and held by various trust departments. The City has an investment policy for public funds. The City holds the funds above in trust, which is subject to policy mandated by Kentucky statute that allows for trust funds to be invested in securities which would be regarded by a prudent businessman as a safe investment.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

As of June 30, 2017, the City had the following investments:

Investment Type	Investment Value	Weighted Average Maturity (Years)
Corporate bonds	\$ 153,987	11.25
Government securities	140,418	23.48
Cash balance in funds	436,826	-
Mutual funds	771,138	-
Common stock	392,829	-
Closed end funds	341,937	-
Guaranteed investment contracts	4,423,000	9.37
Total investments	<u>\$ 6,660,135</u>	
Portfolio weighted average maturity		<u>6.98</u>

The City's investments are held in the following funds:

Investments held in:	Amount Invested
Newport on the Levee Fund	\$ 4,423,000
Fiduciary Funds	2,237,135
Total	<u>\$ 6,660,135</u>

Credit Risk – Investments – As of June 30, 2017, the City's investments in guaranteed investment contracts and corporate bonds received the following ratings by Standard & Poor's:

Investment	Rating
Guaranteed investment contracts – Newport on the Levee	
Unicredit Bank AG 01/01/2027	BBB
Corporate bonds – Fiduciary Funds	
American Express	A-
Bank of America	BBB+
Comcast Corp.	A-
United Mexican States	BBB+
Ford Motor Company	BBB
General Electric Capital Corp.	AA+
Goldman Sachs	A-
JP Morgan Chase Global	A
Verizon Communications	BBB+
Wells Fargo & Company	A

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Investment Valuation - The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City does not have any investments that are measured using Level 3 inputs.

For those investments measured at fair value, the investments' fair value measurements are as follows at June 30, 2017:

Fair Value Measurements Using				
Investments	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Corporate income	\$ 153,987	\$ -	\$ 153,987	\$ -
Government securities	140,418	-	140,418	-
Cash balance in funds	436,826	436,826	-	-
Mutual funds	771,138	771,138	-	-
Common stock	392,829	392,829	-	-
Closed end funds	341,937	341,937	-	-
Total	<u>\$ 2,237,135</u>	<u>\$ 1,942,730</u>	<u>\$ 294,405</u>	<u>\$ -</u>

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE D – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2017 is as follows:

	Balance June 30, 2016	Additions	Retirements/ Adjustments	Balance June 30, 2017
Governmental activities				
Items not being depreciated:				
Construction in progress	\$ 393,446	\$ 609,835	\$ (340,188)	\$ 663,093
Land	<u>6,645,184</u>	<u>-</u>	<u>-</u>	<u>6,645,184</u>
Subtotal	<u>7,038,630</u>	<u>609,835</u>	<u>(340,188)</u>	<u>7,308,277</u>
Capital assets being depreciated:				
Land improvements	42,659,721	916,015	-	43,575,736
Buildings	7,123,921	16,050	-	7,139,971
Machinery and equipment	2,716,378	11,680	(71,253)	2,656,805
Licensed vehicles	4,957,448	773,718	(354,251)	5,376,915
Non-licensed vehicles	<u>253,494</u>	<u>-</u>	<u>-</u>	<u>253,494</u>
Subtotal	<u>57,710,962</u>	<u>1,717,463</u>	<u>(425,504)</u>	<u>59,002,921</u>
Accumulated depreciation:				
Land improvements	(24,727,875)	(826,317)	-	(25,554,192)
Buildings	(3,324,787)	(190,326)	-	(3,515,113)
Machinery and equipment	(2,350,466)	(84,281)	71,253	(2,363,494)
Licensed vehicles	(3,964,531)	(218,311)	291,965	(3,890,877)
Non-licensed vehicles	<u>(182,039)</u>	<u>(12,821)</u>	<u>-</u>	<u>(194,860)</u>
Subtotal	<u>(34,549,698)</u>	<u>(1,332,056)</u>	<u>363,218</u>	<u>(35,518,536)</u>
Net depreciable capital assets	<u>23,161,264</u>	<u>385,407</u>	<u>(62,286)</u>	<u>23,484,385</u>
Total capital assets, net	<u>\$ 30,199,894</u>	<u>\$ 995,242</u>	<u>\$ (402,474)</u>	<u>\$ 30,792,662</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 7,022
Police	85,659
Fire/EMS	220,758
Development services	50,743
Community services	868,247
Municipal complex	<u>99,627</u>
Total governmental activities depreciation expense	<u>\$ 1,332,056</u>

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

The following is a summary of changes in the capital assets in the proprietary funds:

	Balance June 30, 2016	Additions	Retirements/ Adjustments	Balance June 30, 2017
Proprietary activities:				
Land	\$ 9,196,274	\$ -	\$ -	\$ 9,196,274
Land improvements	26,281	-	-	26,281
Vehicles	253,750	-	-	253,750
Buildings	40,316,840	46,767	-	40,363,607
Subtotal	<u>49,793,145</u>	<u>46,767</u>	<u>-</u>	<u>49,839,912</u>
Accumulated depreciation				
Land improvements	(25,551)	(730)	-	(26,281)
Vehicles	(33,833)	(50,750)	-	(84,583)
Buildings	(24,075,980)	(1,668,886)	-	(25,744,866)
Subtotal	<u>(24,135,364)</u>	<u>(1,720,366)</u>	<u>-</u>	<u>(25,855,730)</u>
Net capital assets	<u>\$ 25,657,781</u>	<u>\$ (1,673,599)</u>	<u>\$ -</u>	<u>\$ 23,984,182</u>

Proprietary fund depreciation was charged to the Newport on the Levee and Refuse Funds in the amounts of \$1,669,616 and \$50,750, respectively.

NOTE E – SHORT-TERM DEBT OBLIGATIONS

Note Payable – Tax Anticipation Note

On August 1, 2016, the City issued \$500,000 of tax anticipation notes for the purpose of meeting current expenses. The notes bore interest at a rate of 1.53% and were paid off on June 19, 2017.

Changes in Short-Term Debt Obligations

During the year ended June 30, 2017, the following changes occurred in short-term debt obligations in the governmental funds:

	June 30, 2016	Additions	Retirements	June 30, 2017
Tax anticipation notes	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ (500,000)</u>	<u>\$ -</u>

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE F – LONG-TERM DEBT

Governmental Activities

Notes Payable

All notes payable are payable from general fund revenues and are secured by City assets.

Note Payable – Kentucky Infrastructure Authority

The City entered into a loan agreement with the Kentucky Infrastructure Authority on September 16, 1994 to fund the development of the Channel Crossing Project in the amount of \$2,331,899 with an annual interest rate of 5.25%. The repayment of the loan is on a thirty-year amortization schedule with a balloon payment due in year twenty. This note was refinanced with the Kentucky Infrastructure authority on December 1, 2006, with a new repayment amortization schedule of twenty years and a new interest rate of 1.40%. The balance at June 30, 2017 is \$1,155,844. The following is a schedule of future debt service requirements to maturity as of June 30, 2017:

Year Ended June 30,	Note Payable KIA		
	Principal	Interest/ Fees	Total Debt Service
2018	\$ 137,525	\$ 17,945	\$ 155,470
2019	139,456	15,737	155,193
2020	141,416	13,498	154,914
2021	143,403	11,228	154,631
2022	145,418	8,925	154,343
2023-2025	<u>448,626</u>	<u>12,635</u>	<u>461,261</u>
Total	<u>\$ 1,155,844</u>	<u>\$ 79,968</u>	<u>\$ 1,235,812</u>

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note Payable - Bank of Kentucky

The City entered into a lease agreement for \$8,042,767 with Bank of Kentucky on December 27, 2013 to currently refund the outstanding General Obligation Public Project Bonds, Series 2002. The obligation constitutes a general obligation of the City and is payable semi-annually in May and November with final maturity on November 1, 2022. The obligation bears interest at a rate of 2.90%. The balance of the note at June 30, 2017 is \$5,656,286. The following is a schedule of future debt service requirements to maturity as of June 30, 2017:

Year Ended June 30,	Bank of Kentucky Note Payable		
	Principal	Interest	Total Debt Service
2018	\$ 880,441	\$ 151,266	\$ 1,031,707
2019	902,087	125,419	1,027,506
2020	927,551	98,889	1,026,440
2021	956,118	71,576	1,027,694
2022	982,601	43,465	1,026,066
2023	1,007,488	14,609	1,022,097
Total	<u>\$ 5,656,286</u>	<u>\$ 505,224</u>	<u>\$ 6,161,510</u>

Bonds Payable

The following bonds payable are payable from general fund revenues and are secured by the City assets which were financed by the bonds.

2003 General Obligation Public Project Refunding Bonds

The City issued bonds on June 17, 2003 for \$4,635,000 for the principal purpose of refinancing the leases on the City Hall and the Fire Facilities. The interest rate ranges from 1% to 3.3%. The bonds matured on August 1, 2016. The balance due has been fully paid at June 30, 2017.

2007A General Obligation Public Project Bonds

The City issued bonds on June 14, 2007 in the amount of \$4,830,000 to finance the construction of Pavilion Parkway, water mains and lines, sewer mains and lines, water detention facilities and related improvements. The interest rate ranges from 3.75% to 4.0% and the bonds had an original maturity over the period May 1, 2008 to May 1, 2027. In July 2016, new bonds were issued for \$3,135,000 to advance refund the 2007A bonds. As a result, the 2007A bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt. The new issue will reduce debt service payments by \$280,859 and has a net economic gain of \$253,136.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

General Obligation Refunding Bonds, Series 2015

On September 24, 2015, the City issued \$6,910,000 of refunding bonds. The bonds have an interest rate ranging between 2% and 4% and mature on May 1, 2030. The bonds were issued with a premium of approximately \$30,000 that will be amortized over the life of the bond. The proceeds from the bonds were used to refund Taxable General Obligation Bonds, Series 2007B. The principal balance at June 30, 2017 is \$6,845,000. The following is a schedule of future debt service requirements to maturity as of June 30, 2017:

General Obligation Refunding Bonds, Series 2015			
June 30,	Principal	Interest	Total Debt Service
2018	\$ 365,000	\$ 231,575	\$ 596,575
2019	370,000	224,275	594,275
2020	380,000	216,413	596,413
2021	395,000	205,013	600,013
2022	415,000	193,163	608,163
2023-2027	2,245,000	766,713	3,011,713
2028-2032	2,675,000	330,000	3,005,000
Total	<u>\$ 6,845,000</u>	<u>\$ 2,167,152</u>	<u>\$ 9,012,152</u>

General Obligation Bonds, Series 2015B

On November 12, 2015, the City issued \$5,085,000 of general obligation bonds. The bonds have an interest rate ranging between 3% and 3.75% and mature on October 1, 2040. The bonds were issued with a premium of approximately \$189,000 that will be amortized over the life of the bond. Proceeds were used to finance a portion of the costs of multiple public projects, comprised of infrastructure improvements, a new public works facility, underground utilities and multiple miscellaneous capital improvements and refund the General Obligation Bond Anticipation Notes, Series 2014. The principal balance at June 30, 2017 is \$5,070,000. The following is a schedule of future debt service requirements to maturity as of June 30, 2017:

General Obligation Bonds, Series 2015B			
June 30,	Principal	Interest	Total Debt Service
2018	\$ 15,000	\$ 160,875	\$ 175,875
2019	15,000	160,425	175,425
2020	15,000	159,975	174,975
2021	20,000	159,450	179,450
2022	20,000	158,850	178,850
2023-2027	2,400,000	650,400	3,050,400
2028-2032	1,310,000	336,400	1,646,400
2033-2037	655,000	177,563	832,563
2038-2041	620,000	47,813	667,813
Total	<u>\$ 5,070,000</u>	<u>\$ 2,011,751</u>	<u>\$ 7,081,751</u>

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

General Obligation Bonds, Series 2016

In July 2016, the City issued \$3,135,000 of general obligation bonds. The bonds have a variable interest rate between 1% and 3% and mature on May 1, 2027. The bonds were issued with a premium of approximately \$162,129 that will be amortized over the life of the bond. Proceeds were used to refund the General Obligation Bond, Series 2007A. The principal balance at June 30, 2017 is \$2,860,000. The following is a schedule of future debt service requirements to maturity as of June 30, 2017:

Year Ended June 30,	General Obligation Bonds, Series 2007A		
	Principal	Interest	Total Debt Service
2018	\$ 265,000	\$ 64,200	\$ 329,200
2019	270,000	61,550	331,550
2020	270,000	58,850	328,850
2021	275,000	56,150	331,150
2022	275,000	53,400	328,400
2023-2027	1,505,000	137,700	1,642,700
Total	<u>\$ 2,860,000</u>	<u>\$ 431,850</u>	<u>\$ 3,291,850</u>

Proprietary Activities

2000A&B Revenue Bonds

On April 1, 2000, the City issued First Mortgage Revenue Bonds in the amount of \$55,780,000, consisting of \$11,550,000 in taxable 2000 Series B bonds at an 11% coupon rate maturing in January 2009 and \$44,230,000 in tax-exempt 2000 Series A bonds at an 8.75% coupon rate maturing in January 2027, to finance and acquire real property, a public parking garage facility, a public plaza area, land, and a surface parking lot at Newport on the Levee. The issue calls for semi-annual interest payments on January 1 and July 1 and annual principal payments on January 1. Revenues from the Newport on the Levee fund are pledged to the retirement of this debt, and the Newport on the Levee property is collateral for this debt. The 2000 Series B bonds were paid in full in fiscal year 2009. The balance remaining at June 30, 2017 of \$21,885,000 consists of only 2000 Series A tax-exempt bonds. The following is a schedule of future debt service requirements to maturity as of June 30, 2017:

June 30,	2000A Revenue Bonds Payable		
	Principal	Interest	Total Debt Service
2018	\$ 1,865,000	\$ 1,857,894	\$ 3,722,894
2019	2,020,000	1,742,925	3,762,925
2020	1,730,000	1,571,225	3,301,225
2021	1,865,000	1,424,175	3,289,175
2022	2,005,000	1,265,650	3,270,650
2023-2027	12,400,000	3,569,305	15,969,305
Total	<u>\$ 21,885,000</u>	<u>\$ 11,431,174</u>	<u>\$ 33,316,174</u>

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Changes in Long-Term Liabilities

During the year ended June 30, 2017 the following changes occurred in long-term liabilities in the governmental funds:

	June 30, <u>2016</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2017</u>	Due within <u>One Year</u>
Compensated absences	\$ 1,170,036	\$ 50,211	\$ -	\$ 1,220,247	\$ -
Gen. obligation bonds - 2003	410,000	-	(410,000)	-	-
Gen. obligation bonds - 2007A	3,110,000	-	(3,110,000)	-	-
GO refunding bonds - 2015	6,860,000	-	(15,000)	6,845,000	365,000
Gen. obligation bonds - 2015B	5,085,000	-	(15,000)	5,070,000	15,000
Premium on bonds issued - 2015	210,077	-	(9,031)	201,046	9,031
Gen. obligation bonds - 2016	-	3,135,000	(275,000)	2,860,000	265,000
Premium on bonds issued - 2016	-	162,129	(14,739)	147,390	14,739
Notes payable - KIA	1,291,463	-	(135,619)	1,155,844	137,525
Notes Payable - Bank of Kentucky	6,509,092	-	(852,806)	5,656,286	880,441
Retainage payable	-	83,345	-	83,345	-
Net pension liability	<u>20,426,503</u>	<u>1,859,314</u>	<u>-</u>	<u>22,285,817</u>	<u>-</u>
Total	<u>\$ 45,072,171</u>	<u>\$ 5,289,999</u>	<u>\$ (4,837,195)</u>	<u>\$ 45,524,975</u>	<u>\$ 1,686,736</u>

Long-term liability activity for business-type activities for the year ended June 30, 2017 was as follows:

	June 30, <u>2016</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2017</u>	Due within <u>One Year</u>
Newport on the Levee	\$ 23,605,000	\$ -	\$ (1,720,000)	\$ 21,885,000	\$ 1,865,000
Net pension liability	<u>200,404</u>	<u>28,703</u>	<u>-</u>	<u>229,107</u>	<u>-</u>
Total	<u>\$ 23,805,404</u>	<u>\$ 28,703</u>	<u>\$ (1,720,000)</u>	<u>\$ 22,114,107</u>	<u>\$ 1,865,000</u>

NOTE G – CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims including amounts already collected may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE H – DEFINED BENEFIT PENSION PLANS

The government maintains two single-employer, defined benefit pension plans, the Employees' Retirement Fund and the Police and Firefighters' Retirement Fund (PFRF). The City also participates in the Commonwealth of Kentucky County Employees' Retirement System (CERS), which covers all governmental employees not already covered by the Employees' Retirement Fund or the PFRF.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Police and Firefighters' Retirement Fund and the Employees' Retirement Fund

Plan Description – The plans are presented as Fiduciary Funds in the City's financial statements. The Employees' Retirement Fund covers substantially all non-public safety employees hired prior to April 1, 1977. The Policemen and Firefighters' Pension Plan covers all retired policemen and firefighters who were receiving benefits prior to August 1, 1988. Each plan provides retirement, disability, and death benefits to plan members and their beneficiaries.

Neither plan has active members. In addition, future employees are not eligible to participate in the plans. The Employees' Retirement fund has 4 retired, 1 disabled and 16 beneficiary members receiving benefits. The Policemen and Firefighters' Retirement fund has 7 retired, 5 disabled, and 17 beneficiary members receiving benefits.

Benefits Provided – Benefits for the Employees' Retirement Fund are provided and may be amended by City ordinance. Benefits for the Policemen and Firefighters' Retirement Fund are provided by state statute. Members are vested and retirement is available upon completion of 20 years of service. The monthly benefit at retirement is 2.5% of average salary for the first 20 years of service plus 1% per year after 20 years with a maximum benefit of 65% of average salary. The Policemen and Firefighters' Retirement Fund has a minimum benefit of \$434. Cost-of-living adjustments, for the Policemen and Firefighters' Retirement Fund are provided at the discretion of the Board of Trustees.

Contributions – The City must provide annual contributions sufficient to satisfy the actuarially determined contribution requirements as mandated by state statutes. No contributions were made for the year ending June 30, 2017, for either fund; however, contributions were made in fiscal year 2007 in excess of the annual required contribution. At June 30, 2017, neither pension fund was overfunded based on the fiscal year 2007 payments. The City is developing a plan to generate the contributions that are necessary to fund the plans and prevent estimated depletions.

Measurement Focus and Basis of Accounting – The Plans' operations are accounted for on an economic resources measurement focus and the accrual basis of accounting. Employer contributions are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with terms of the Plan.

The Employees' Retirement Fund and the Policemen and Firefighters' Retirement Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans in 2014. The fiduciary fund statements are presented in accordance with Statement No. 67. The Primary Government (PG), as the Plan's single-employer, implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions in fiscal year 2015.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

The following was the Board's adopted target allocation and the long-term expected rate of return on Plan investments for the Employees' Retirement Fund and the Policemen and Firefighters' Retirement Fund.

Asset Class	Target Allocation	Long-term Expected Rate of Return
Fixed income	30%	-
Equity funds	67%	-
Alternative funds	3%	-
	<u>100%</u>	<u>5.5%</u>

Investments – Investments are reported at fair value.

The Plans' policy for allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Investments that represent 5% or more of the net position of the Employees' Retirement Fund at June 30, 2017 are as follows:

Investment	Fair Value
ISHARES US PFD Stock ETF	\$ 31,336

Investments that represent 5% or more of the net position of the Policemen and Firefighters' Retirement Fund at June 30, 2017 are as follows:

Investment	Fair Value
American Century Heritage Inv.	\$ 108,338

Net Pension Liability – The components of the net pension liability at June 30, 2017, were as follows:

Employees' Retirement Fund:

Total pension liability	\$ 1,646,283
Less: Plan fiduciary net position	<u>529,071</u>
Net pension liability	<u>\$ 1,117,212</u>
Plan fiduciary net pension as a percentage of total pension liability	32.14%

Policemen and Firefighter's Retirement Fund:

Total pension liability	\$ 2,894,658
Less: Plan fiduciary net position	<u>1,710,645</u>
Net pension liability	<u>\$ 1,184,013</u>
Plan fiduciary net pension as a percentage of total pension liability	59.10%

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Actuarial Assumptions – The total pension liability for both Plans was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions:

Employees' Retirement Fund:

Cost of Living	- %
Salary Adjustments	N/A
Investment Rate of Return	5.5 %

Policemen and Firefighters' Pension Fund

Cost of Living	- %
Salary Adjustments	N/A
Investment Rate of Return	5.5 %

Mortality rates for health individuals were based on RP 2014 Total Mortality Table for males and females, as appropriate, with adjustments for mortality improvements based on Scale MP-2016. Mortality rates for disable individuals were based on RP 2014 Disabled Mortality Table for males and females, as appropriate, with adjustments for mortality improvements based on Scale MP-2014.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study from 2006 – 2014.

The long-term expected rate of return on Plan investments was determined using 10 year return expectations based on historical data in different yield environments. Best estimates of the geometric rates of return for each major asset class, included in the Plan's target asset allocation at June 30, 2017, is as follows:

Employees' Retirement Fund:

Asset Class	Long-Term Expected Real Rate of Return
Fixed income	3.20 %
Equity funds	6.10 %
Alternative funds	7.32 %

Policemen and Firefighters' Retirement Fund

Asset Class	Long-Term Expected Real Rate of Return
Fixed income	3.20 %
Equity funds	6.10 %
Alternative funds	7.32 %

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Discount Rate – The discount rate used to measure the total pension liability was 3.90% for the Policemen and Firefighters' Retirement Fund and 3.44% for the Employees' Retirement Fund. The discount rate was determined by blending the expected rate of return of 5.50% until the fund is depleted and then a 3.25% twenty year tax-exempt municipal bond rate, which is the rate that current municipal bonds are available to similar cities. The Employees' Retirement Fund is expected to be depleted by year four for following the measurement date and the Policemen and Firefighters' Retirement Fund is expected to be depleted by year nine following the measurement date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability calculated using the discount rate noted above, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower and higher than the current rate.

Employees' Retirement Fund:

	Discount Rate	Net Pension Liability (Asset)
1% decrease	2.44%	\$ 1,252,884
Current discount rate	3.44%	\$ 1,117,212
1% increase	4.44%	\$ 1,000,495

Policemen and Firefighter's Retirement Fund:

	Discount Rate	Net Pension Liability (Asset)
1% decrease	2.90%	\$ 1,397,121
Current discount rate	3.90%	\$ 1,184,013
1% increase	4.90%	\$ 997,841

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to the Employees' Retirement Fund from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	57,082	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	-	-
Total	\$ 57,082	\$ -

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to the Policemen and Firefighters' Retirement Fund from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	120,235	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	-	-
Total	<u><u>\$ 120,235</u></u>	<u><u>\$ -</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows for Employees' Retirement Fund and the Police and Firefighters' Retirement fund:

Year ending June 30,

2018	\$ 91,518
2019	\$ 91,518
2020	\$ 19,584
2021	\$ (25,303)

County Employees Retirement System (CERS)

The City of Newport is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the state legislature.

Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5%, provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Non-hazardous Benefits – For members who began contributing to CERS prior to September 1, 2008, final compensation represents the average fiscal year of earnings with the highest monthly average used when calculating your retirement benefit. Final compensation is based on the 5-high creditable compensation years with a minimum of 48 months and a minimum of five fiscal years. Final compensation is determined by dividing the total salary earned during the 5-high years by the number of months worked, then multiplying by twelve. Non-hazardous members, age 65 or older, or with 27 or more years of service are eligible to retire and receive unreduced benefits. Any non-hazardous member, age 55, with a minimum of five years of service may retire with a reduction in benefits.

For non-hazardous members who began contributing to CERS on or after September 1, 2008, any member age 57 or older, may retire with no reduction in benefits if the member's age and years of service equal 87. In addition, a member, age 65, with at least 60 months of service may retire with no reduction in benefits. A member, age 60 or older, with at least 120 months of service credit may retire at any time with a reduction of benefits.

Hazardous Benefits – For members who began contributing to CERS prior to September 1, 2008, final compensation represents the average fiscal year of earnings with the highest monthly average used when calculating your retirement benefit. Final compensation is based on the 3-high creditable compensation years with a minimum of 24 months and a minimum of three fiscal years. Final compensation is determined by dividing the total salary earned during the 3-high years by the number of months worked, then multiplying by twelve. Hazardous members, age 55 or older, or with 20 or more years of service are eligible to retire and receive unreduced benefits. Any hazardous member, age 50, with a minimum of fifteen years of service may retire with a reduction in benefits.

For hazardous members who began contributing to CERS on or after September 1, 2008, any member age 60 or older with 60 months of service or a member with 25 years of service, may retire with no reduction in benefits. A member, age 50 or older, with at least 180 months of service credit may retire at any time with a reduction of benefits.

Non-hazardous Contributions – For the year ended June 30, 2017, plan members were required to contribute 5% of their annual creditable compensation. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate.

Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2017, participating employers contributed 18.68% of each employee's creditable compensation, which was the actuarially determined rate set by the Board. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Hazardous Contributions – For the year ended June 30, 2017, plan members were required to contribute 8% of their annual creditable compensation. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate.

Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2017, participating employers contributed 31.06% of each employee's creditable compensation, which was the actuarially determined rate set by the Board. Administrative costs of the KRS are financed through employer contributions and investment earnings.

For the year ended June 30, 2017, the City contributed \$397,523, or 100% of the required contribution for non-hazardous job classifications, and \$1,652,206, for the year ended June 30, 2017, or 100% of the required contribution for hazardous job classifications. The contributions were allocated \$296,868 and \$1,154,842, respectively, to the CERS pension fund and \$100,658 and \$497,364, respectively, to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2017, the City reported a liability for its proportionate share of the net pension liability as follows:

Total CERS Net		
Pension Liability	Non-hazardous	Hazardous
<u>\$ 20,213,699</u>	<u>\$ 3,933,909</u>	<u>\$ 16,279,790</u>

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2017 was as follows:

Non-hazardous	Hazardous
.0799%	.9487%

The non-hazardous proportionate share at June 30, 2016 increased by .001% from the proportionate share as of June 30, 2015. The hazardous proportionate share at June 30, 2016 increased by .005% from the proportionate share as of June 30, 2015.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

For the year ended June 30, 2017, the City recognized pension expense of \$2,479,390. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 251,972	\$ -
Changes of assumptions	1,142,601	-
Net difference between projected and actual earnings on Plan investments	1,743,175	-
Changes in proportion and differences between City contributions and proportionate share of contributions	218,680	-
City contributions subsequent to the measurement date	1,451,710	-
Total	<u>\$ 4,808,138</u>	<u>\$ -</u>

The \$1,451,710 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2018	\$ 989,293
2019	1,255,310
2020	720,996
2021	390,829

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Hazardous

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	<u>2%</u>	-.25%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

	Non-hazardous		Hazardous	
	Discount rate	City's proportionate share of net pension liability	Discount rate	City's proportionate share of net pension liability
1% decrease	6.50%	\$ 4,902,293	6.50%	\$ 20,452,159
Current discount rate	7.50%	\$ 3,933,909	7.50%	\$ 16,279,790
1% increase	8.50%	\$ 3,103,819	8.50%	\$ 12,838,300

Payable to the Pension Plan – At June 30, 2017, the City reported a payable of \$200,388 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017. The payable includes both the pension and insurance contribution allocation.

NOTE I – DEFERRED COMPENSATION PLAN

Employees of the City may participate in the deferred compensation plan adopted under the provision of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). Employees may also participate in a Section 401(k) adopted under the provisions of the Internal Revenue Code. The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable financial emergency. During the year ended June 30, 2017, contributions to the 457 and 401(k) deferred compensation plans totaled \$191,282 and \$147,617, respectively.

The deferred compensation plans are administered by the Kentucky Public Employees' Kentucky Deferred Compensation Authority.

NOTE J – INTER-FUND TRANSACTIONS

A summary of the inter-fund account balances is as follows:

Receivable Funds	Payable Funds	Amount
General	Capital Projects	\$ 306,800
	Refuse	70,750
	Newport Foundation	<u>2,034</u>
		<u>\$ 379,584</u>
Capital Projects	General	<u>\$ 512,593</u>
Newport Foundation	General	<u>\$ 500</u>

Many of the outstanding balances between funds are short-term loans for payments of payables prior to the transfer of funds to cover such payables.

CITY OF NEWPORT, KENTUCKY
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June 30, 2017

Inter-fund transfers at June 30, 2017 are as follows:

Transfer Out:	Transfer In:					Total
	General Fund	Community Development	Newport Foundation	Capital Projects	Employee Benefits	
General Fund	\$ -	\$ 44,474	\$ 45,000	\$ 1,378,414	\$ 435,000	\$ 1,902,888
Capital Projects Fund	300,000	-	-	-	-	300,000
Refuse Fund	48,700	-	-	-	-	48,700
	<u>\$ 348,700</u>	<u>\$ 44,474</u>	<u>\$ 45,000</u>	<u>\$ 1,378,414</u>	<u>\$ 435,000</u>	<u>\$ 2,251,588</u>

Transfers are used to (1) move debt service funds to the General Fund where all debt service is paid, or (2) move funds from the fund that collected them to the fund that will be making the budgeted disbursement.

NOTE K – CONTINGENT LIABILITIES

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

NOTE L – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs through the efforts and cooperation of its risk manager and department heads.

All general liability risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

The City has established a Health and Dental Self-Insurance Fund. Employees participate in the program and certain other medical insurance programs offered by the City. Under this program, the first \$30,000 of a participant's medical claim are payable by the Health and Dental Self-Insurance Fund. The City purchases insurance for claims in excess of coverage provided by the fund. The General Fund participates in the program and makes payments to the health and dental fund based on estimates of the amount needed to pay current year claims. A liability for incurred but not reported claims as of June 30, 2017 has not been estimated based on the nature of the claims process. This is in accordance with the requirements of GASB Statement No. 10 which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements unless such an estimate cannot be made.

The General Fund contains no provision for estimated legal claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE M – TAX ABATEMENTS

Job Development/KBI Incentive Programs

The City of Newport Jobs Development Incentive Program (JDIP) was created in 2007 to “recognize the importance of a growing and expanding economy by providing incentives for the creation of new jobs in the service, technology, and industrial sectors.” Manufacturing and technology companies and professional offices meeting the eligibility criteria may qualify for a rebate of occupational tax withholdings for up to ten years. Pursuant to Section 37.215 of the Newport City Code of Ordinances, a company must meet several eligibility criteria including the following:

- 1) It is a sole proprietorship, partnership or corporation authorized to do business in the Commonwealth of Kentucky exclusive of retail industry jobs, bars, hotels/motels or jobs in a sexually oriented business/adult entertainment business as elsewhere defined within the City's Code of Ordinances; and
- 2) It engages in industrial, service or technology activity inside the corporate limits of the City; or
- 3) It engages in the services of a licensed professional, such as, but not limited to, architects, attorneys, engineers, physicians, psychiatrists, psychologists and certified public accountants.
- 4) A project shall be eligible for employee withholdings credit only if it directly creates new jobs so as to generate employee withholdings sufficient to qualify the applicant for not less than the minimum incentive program amount.
- 5) The applicant must generate a minimum of \$250,000 in Newport taxable wages each fiscal year of the credit.

The City collects the full amount of the withholdings and, following a review of the criteria within the agreement, issues a rebate to the business. In the event of default under an employee withholdings credit agreement, the City may suspend the credit until such time as the default is cured or the City may terminate the credit. If the credit is terminated, the City may initiate legal proceedings to recover the amount of employee withholdings credited to the approved company up to the date the credit was terminated.

Kentucky's Business Investment (KBI) Program provides income tax credits and wage assessments to new and existing agribusinesses, regional and national headquarters, manufacturing companies, and non-retail service or technology related companies that locate or expand operations in Kentucky. KBI is authorized through KRS 154.32-010 through KRS 154.32-100. The City participates in Kentucky Business Investment programs with the State's Cabinet for Economic Development.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Taxes abated under this program during the year ended June 30, 2017 were as follows:

<u>Recipient</u>	<u>Program</u>	<u>Incentive Status</u>	<u>FY 2017 Amount Rebated</u>	<u>Date of KEDFA Action/City Approval</u>
Defenders, Inc., aka Defender Security Company	KBI	Final Approval	\$ 8,414	8/30/2012
Divisions, Inc.	KBI/JDIP	Final Approval	30,010	8/28/2014
Ethos Holding Corp.	KBI	Final Approval	-	12/10/2015
New Riff Distilling, LLC	KEIA	Final Approval	-	6/30/2016
New Riff Distilling, LLC	KBI	Final Approval	-	4/27/2017
P. L. Marketing, Inc.	KBI	Final Approval	127,777	9/26/2013
Arcron Systems, Inc.	KBI	Inactive	-	5/26/2011
Ethos Holding Corp.	KEIA	Inactive	-	1/31/2013
Meaningful Use Technologies LLC	KBI	Inactive	-	5/26/2011
XPO Logistics, Inc.	KBI	Inactive	-	9/26/2013
Greater Comfort	JDIP	Active	8,674	4/22/2013
Harlow - HRK	JDIP	Active	70,656	9/10/2012
Nexigen	JDIP / KBI	Active	21,627	1/28/2013
Baynum Painting, Inc.	JDIP	Active	-	4/22/2013
BPI Painting Company (Inc.)	JDIP	Active	3,389	4/22/2013
Nimblesoft	JDIP	Active	3,764	10/20/2014
Studio Vertu	JDIP	Active	5,827	10/20/2014
David J Joseph Company	JDIP	Inactive	15,834	8/17/2015
Total			<u>\$ 295,972</u>	

Property Assessment Moratorium

The City of Newport offers a Property Tax Assessment Moratorium for properties that meet certain eligibility standards. This program allows property owners to defer the value of building improvements from taxable assessment for a maximum period of five (5) years. Any structure that is 25 years or older that has a primary use of commercial business or is an existing residential unit may apply. This moratorium applies to ONLY City property tax. State Statutes dealing with assessment or reassessment moratorium include KRS Chapter 99, KRS 132.010, and KRS 132.190. The City's program is enabled through City Ordinance Section 37.020.

Once the application is approved by the City, it is sent to the property valuation administrator who will make an appraisal of subject property at its fair cash value as of the date of application. The applicant shall have two years in which to complete the improvements unless granted an extension by the administering agency. In no case shall it be extended beyond two additional years. Any application for a moratorium not acted upon shall be void two (2) years from the date of application and shall be removed from the files.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Taxes abated under this program during the year ended June 30, 2017 were as follows:

Address	Approval Order	FY 2017 Assessment Value Deferred	Amount Abated @ \$2.81/\$1000
806 Park Ave	R-2012-053	\$ 255,000	\$ 717
808 Park Ave	R-2012-093	\$ 340,000	\$ 955
815 Park Ave	R-2012-057	\$ 242,500	\$ 681
624 Park Ave	R-2013-076	\$ 56,000	\$ 157
718 Monroe St	R-2013-077	\$ 185,645	\$ 522
568 E 4th St	R-2013-078	\$ 104,000	\$ 292
111 E 10th St	R-2013-079	\$ 50,000	\$ 141
561 E 4th St	R-2014-006	\$ 79,000	\$ 222
730 Park Ave	R-2015-016	\$ 273,000	\$ 767
732 Park Ave	R-2015-015	\$ 353,000	\$ 992
728 Park Ave	R-2015-064	\$ 212,000	\$ 596
629 York St	R-2017-028	\$ 94,400	\$ 265
819 Overton St	R-2017-029	N/A	N/A
823 Overton St	R-2017-030	\$ 216,000	\$ 607

Industrial Revenue Bonds

Industrial Revenue Bonds (IRB) may be issued by state and local governments in Kentucky to help finance industrial buildings as defined by KRS 103.200. Bond funds may be used to finance the total project costs, including engineering, site preparation, land, buildings, machinery and equipment, and bond issuance costs.

Generally, the issuer serves as a conduit to provide a lower interest rate to the borrower, but the issuer is not obligated for debt repayment. Bondholders look to the “revenue” arising from the project to cover debt service. Bond proceeds from bond issues can be lent directly by the issuer.

KRS 103 also permits the issuer to hold title to the improvements financed with IRB proceeds. In this instance, the property owned by the issuer may be exempt from local property taxes during the duration of the bond issue. This property may also be eligible to be taxed at a reduced state rate of \$0.015 per \$100 of leasehold value, if such reduction receives the prior written approval by the Kentucky Economic Development Finance Authority (KEDFA) as required by KRS 103.210 and KRS 132.020. (See KEDFA operating procedures as it relates to this review process.) Any portions of such projects financed by private capital are subject to the full state and local property taxes applicable to private ownership.

Communities may negotiate for payments by industrial tenants to replace portions of local property taxes lost through public title to the property. These agreements are commonly referred to as Payment In Lieu of Tax (PILOT) agreements.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

The City has approved the use of IRBs for and holds PILOT Agreements for the following projects that resulting in associated tax abatement:

Project	FY 2017 Abatement Amount
South Shore	\$ 132,211
Vue 180	61,399
Aquarium	72,343
Newport Holdings (IB Goodman)	6,637
Target	10,678
Pavilion	201,103
Monmouth Row	28,100
Aqua on the Levee/Aloft	10,335
Aloft: Airlot A4 -Hotel	3
Newport on the Levee	251,140
Hofbrauhaus	4,039
TOTAL:	<u>\$ 777,988</u>

Tax Increment Financing District

The City has created the local City Center Tax Increment Financing District north of 5th Street, in the downtown area. No taxes were abated under this program in the year ended June 30, 2017.

Property Assessed Clean Energy Financing

The City has created an Energy Project Assessment District to facilitate Property Assessed Clean Energy Projects. KY-PACE is a new program available to commercial, industrial, and multi-family building owners across the Commonwealth. PACE (Property Assessed Clean Energy) provides access to low-cost, extended term capital to finance energy efficiency and water efficiency improvements. KY-PACE is the implementation of a state law commonly called EPAD, that was adopted in 2015 (KRS 65.205), and allows a property owner to finance energy and water saving improvements through a voluntary assessment on the property. No taxes were abated under this program in the year ended June 30, 2017.

NOTE N – SUBSEQUENT EVENTS

Newport Foundation

The Board of Directors of the Newport Foundation made modifications to the Foundation's bylaws and operations subsequent to June 30, 2017. The changes resulted in an increased separation of the operations and the governance of the Foundation from the City. The intent of the Board of Directors is for the Foundation to no longer be presented as a component unit of the City in future audit periods.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Police Union Contract

On November 20, 2017, the City of Newport entered into a union contract with the Fraternal order of Police, Lodge 2, setting forth rates of pay, hours of work and conditions of employment. The contract was retroactively effective to July 1, 2017 and will remain in full force until June 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
Budgetary fund balance, July 1	\$ 3,225,073	\$ 7,679,188	\$ 7,679,190	\$ 2
Resources (inflows):				
Taxes:				
Property	2,138,305	2,135,820	2,138,089	2,269
Tangible	248,975	235,020	222,681	(12,339)
Bank deposit	65,000	67,440	67,447	7
Licenses and permits:				
Payroll license fees	8,184,255	8,137,130	8,395,660	258,530
Insurance license fees	3,000,000	3,000,000	3,122,632	122,632
Other	554,445	611,090	650,769	39,679
Intergovernmental	964,930	1,456,480	1,468,664	12,184
Fines and forfeitures	73,335	67,840	90,053	22,213
Charges for services	1,034,895	1,024,580	1,044,991	20,411
Uses of property	1,284,310	2,982,950	2,974,069	(8,881)
Interest	3,315	4,000	7,440	3,440
Miscellaneous	2,000	1,000	5,427	4,427
Refunds and reimbursements	1,500	96,260	146,434	50,174
Transfers in	33,000	350,750	348,700	(2,050)
Amounts available for appropriation	<u>20,813,338</u>	<u>27,849,548</u>	<u>28,362,246</u>	<u>512,698</u>
Charges to appropriations (outflows):				
General Government:				
Office of City Manager:				
Personnel	887,860	813,600	828,511	(14,911)
Contractual	377,225	409,420	410,817	(1,397)
Materials and supplies	8,140	5,330	3,758	1,572
Other-unclassified	46,660	1,828,460	1,831,939	(3,479)
Total Office of City Manager	<u>1,319,885</u>	<u>3,056,810</u>	<u>3,075,025</u>	<u>(18,215)</u>
Finance and Administration:				
Personnel	507,826	469,390	468,317	1,073
Contractual	160,500	137,410	131,090	6,320
Materials and supplies	15,000	8,400	3,908	4,492
Other-unclassified	53,000	50,310	41,553	8,757
Total Finance and Administration	<u>736,326</u>	<u>665,510</u>	<u>644,868</u>	<u>20,642</u>
Total General Government	<u>\$ 2,056,211</u>	<u>\$ 3,722,320</u>	<u>\$ 3,719,893</u>	<u>\$ 2,427</u>

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	(Continued)
Police:				
Chief's Office:				
Personnel	\$ 359,150	\$ 385,300	\$ 391,431	\$ (6,131)
Contractual	117,125	119,580	122,651	(3,071)
Materials and supplies	7,825	9,500	9,170	330
Other-unclassified	<u>7,525</u>	<u>13,680</u>	<u>13,033</u>	<u>647</u>
Total Chief's Office	<u>491,625</u>	<u>528,060</u>	<u>536,285</u>	<u>(8,225)</u>
Police Administration:				
Personnel	140,701	60,800	60,794	6
Contractual	3,400	700	697	3
Materials and supplies	5,500	670	334	336
Other-unclassified	<u>1,000</u>	<u>270</u>	<u>-</u>	<u>270</u>
Total Police Administration	<u>150,601</u>	<u>62,440</u>	<u>61,825</u>	<u>615</u>
Patrol:				
Personnel	3,266,596	3,290,970	3,325,733	(34,763)
Contractual	104,730	101,160	129,231	(28,071)
Materials and supplies	148,976	176,960	158,676	18,284
Other-unclassified	<u>21,000</u>	<u>37,980</u>	<u>41,355</u>	<u>(3,375)</u>
Total Patrol	<u>3,541,302</u>	<u>3,607,070</u>	<u>3,654,995</u>	<u>(47,925)</u>
Investigation:				
Personnel	417,390	417,060	417,321	(261)
Contractual	12,850	13,520	8,708	4,812
Materials and supplies	11,550	14,010	11,917	2,093
Other-unclassified	<u>2,430</u>	<u>26,590</u>	<u>28,043</u>	<u>(1,453)</u>
Total Investigation	<u>444,220</u>	<u>471,180</u>	<u>465,989</u>	<u>5,191</u>
Traffic:				
Personnel	148,065	184,550	175,183	9,367
Contractual	14,115	15,780	10,806	4,974
Materials and supplies	11,645	17,000	13,940	3,060
Other-unclassified	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Traffic	<u>188,825</u>	<u>217,330</u>	<u>199,929</u>	<u>17,401</u>
Total Police	<u>\$ 4,816,573</u>	<u>\$ 4,886,080</u>	<u>\$ 4,919,023</u>	<u>\$ (32,943)</u>

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	(Continued)
Fire/EMS				
Administration:				
Personnel	\$ 221,245	\$ 217,920	\$ 219,767	\$ (1,847)
Contractual	42,835	46,810	44,763	2,047
Materials and supplies	17,115	15,750	15,701	49
Other-unclassified	11,500	13,610	16,638	(3,028)
Total Administration	<u>292,695</u>	<u>294,090</u>	<u>296,869</u>	<u>(2,779)</u>
Suppression:				
Personnel	1,257,088	1,311,250	1,301,108	10,142
Contractual	31,840	38,650	36,031	2,619
Materials and supplies	20,545	11,500	11,324	176
Materials and supplies	8,000	2,720	3,167	(447)
Total Suppression	<u>1,317,473</u>	<u>1,364,120</u>	<u>1,351,630</u>	<u>12,490</u>
Education/Prevention:				
Personnel	380,760	418,190	410,755	7,435
Contractual	2,625	2,380	1,952	428
Materials and supplies	975	1,500	1,203	297
Other-unclassified	745	1,200	1,139	61
Total Education/Prevention	<u>385,105</u>	<u>423,270</u>	<u>415,049</u>	<u>8,221</u>
Emergency services:				
Personnel	1,269,313	1,305,770	1,282,357	23,413
Contractual	83,215	80,920	71,962	8,958
Materials and supplies	55,020	62,400	59,951	2,449
Other-unclassified	1,900	1,200	-	1,200
Total Emergency services	<u>1,409,448</u>	<u>1,450,290</u>	<u>1,414,270</u>	<u>36,020</u>
South Newport:				
Personnel	958,394	1,014,820	1,002,135	12,685
Contractual	19,005	27,050	30,574	(3,524)
Materials and supplies	4,160	6,050	5,364	686
Other-unclassified	415	650	648	2
Total South Newport:	<u>981,974</u>	<u>1,048,570</u>	<u>1,038,721</u>	<u>9,849</u>
Total Fire/EMS	<u>\$ 4,386,695</u>	<u>\$ 4,580,340</u>	<u>\$ 4,516,539</u>	<u>\$ 63,801</u>

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative) (Continued)
	Original	Final	Amounts	
Development Services:				
Administration:				
Personnel	\$ 173,185	\$ 178,340	\$ 178,360	\$ (20)
Contractual	51,540	57,270	55,813	1,457
Materials and supplies	1,820	1,000	127	873
Other-unclassified	<u>22,860</u>	<u>15,120</u>	<u>17,856</u>	<u>(2,736)</u>
Total Administration	<u>249,405</u>	<u>251,730</u>	<u>252,156</u>	<u>(426)</u>
Code Enforcement:				
Personnel	273,820	290,570	289,473	1,097
Contractual	130,295	210,330	211,398	(1,068)
Materials and supplies	15,260	20,970	16,482	4,488
Other-unclassified	<u>5,420</u>	<u>5,470</u>	<u>3,688</u>	<u>1,782</u>
Total Code Enforcement	<u>424,795</u>	<u>527,340</u>	<u>521,041</u>	<u>6,299</u>
Total Development Services	<u>674,200</u>	<u>779,070</u>	<u>773,197</u>	<u>5,873</u>
Community Services:				
Administration:				
Personnel	196,530	191,820	191,537	283
Contractual	8,800	9,370	8,417	953
Materials and supplies	4,000	2,500	1,522	978
Other-unclassified	<u>1,550</u>	<u>3,210</u>	<u>3,372</u>	<u>(162)</u>
Total Administration	<u>210,880</u>	<u>206,900</u>	<u>204,848</u>	<u>2,052</u>
Pool:				
Personnel	40,952	52,270	61,463	(9,193)
Contractual	28,900	37,860	31,836	6,024
Materials and supplies	15,770	24,950	22,269	2,681
Other-unclassified	<u>1,900</u>	<u>14,320</u>	<u>8,633</u>	<u>5,687</u>
Total Pool	<u>87,522</u>	<u>129,400</u>	<u>124,201</u>	<u>5,199</u>
Public Works:				
Personnel	859,545	865,320	865,173	147
Contractual	488,500	490,710	485,466	5,244
Materials and supplies	281,500	166,840	146,078	20,762
Other-unclassified	<u>23,250</u>	<u>9,780</u>	<u>6,023</u>	<u>3,757</u>
Total Public Works	<u>\$ 1,652,795</u>	<u>\$ 1,532,650</u>	<u>\$ 1,502,740</u>	<u>\$ 29,910</u>

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
				(Continued)
Parks and Recreation:				
Personnel	\$ 75	\$ -	\$ -	\$ -
Contractual	84,890	100,890	88,128	12,762
Materials and supplies	32,850	6,700	11,773	(5,073)
Other-unclassified	28,420	58,000	1,054	56,946
Total Parks and Recreation	<u>146,235</u>	<u>165,590</u>	<u>100,955</u>	<u>64,635</u>
Total Community Services	<u>2,097,432</u>	<u>2,034,540</u>	<u>1,932,744</u>	<u>101,796</u>
Municipal Complex:				
Contractual	187,430	177,710	172,336	5,374
Materials and supplies	12,665	14,010	9,296	4,714
Other-unclassified	11,180	8,070	9,448	(1,378)
Total Municipal Complex	<u>211,275</u>	<u>199,790</u>	<u>191,080</u>	<u>8,710</u>
Capital Outlay:				
General government	37,500	33,750	47,215	(13,465)
Police	142,000	174,930	200,181	(25,251)
Fire/EMS	73,000	556,350	556,339	11
Development Services	22,989	47,000	33,251	13,749
Community services	57,365	51,700	-	51,700
Municipal complex	66,300	-	-	-
Total Capital Outlay	<u>399,154</u>	<u>863,730</u>	<u>836,986</u>	<u>26,744</u>
Debt Service:				
Principal	1,708,425	1,703,430	1,703,425	5
Interest	644,575	655,180	658,032	(2,852)
Total Debt Service	<u>2,353,000</u>	<u>2,358,610</u>	<u>2,361,457</u>	<u>(2,847)</u>
Transfers out	<u>520,250</u>	<u>2,358,830</u>	<u>1,902,888</u>	<u>455,942</u>
Total charges to appropriations	<u>17,514,790</u>	<u>21,783,310</u>	<u>21,153,807</u>	<u>629,503</u>
Other financing sources (uses):				
Other financing use - bond refunding	-	(3,221,130)	(3,221,130)	-
Other financing use - cost of bond issuance	-	(74,189)	(74,189)	-
Other financing source - bond proceeds	-	3,297,129	3,297,129	-
Budgetary fund balance, June 30	<u>\$ 3,298,548</u>	<u>\$ 6,068,048</u>	<u>\$ 7,210,249</u>	<u>\$ 1,142,201</u>

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
COMMUNITY DEVELOPMENT FUND
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Budgetary fund balances, July 1	\$ 477,150	\$ 462,521	\$ 484,129	\$ 21,608
Resources (inflows):				
Bank interest	550	590	603	13
Hamlet Row	982,500	515,010	592,331	77,321
Watertower	45,010	45,010	45,008	(2)
St. Vincent	8,870	8,870	8,867	(3)
Transfers in	32,550	32,550	44,474	11,924
Amounts available for appropriation	<u>1,546,630</u>	<u>1,064,551</u>	<u>1,175,412</u>	<u>110,861</u>
Charges to appropriations (outflows):				
Studies, surveys, signage, projects	1,500	-	-	-
Hamlet Row	982,500	515,010	592,331	(77,321)
Southbank	45,000	42,620	42,620	-
Façade Improvement	262,500	29,560	20,107	9,453
Total charges to appropriation	<u>1,291,500</u>	<u>587,190</u>	<u>655,058</u>	<u>(67,868)</u>
Budgetary fund balances, June 30	<u>\$ 255,130</u>	<u>\$ 477,361</u>	<u>\$ 520,354</u>	<u>\$ 42,993</u>

Note 1: The budgeted amounts for the year ended June 30, 2017 are prepared on the cash basis of accounting. The excess of actual charges to appropriations over budgeted amounts is due to accrual entries made by the City.

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Budgetary fund balances, July 1	\$ 482,072	\$ 118,042	\$ 118,042	\$ -
Resources (inflows):				
Intergovernmental	3,641,582	346,580	318,541	(28,039)
Refunds and reimbursements	-	1,500	1,793	293
Interest	150	500	407	(93)
Transfers in	-	1,901,340	1,378,414	(522,926)
Amounts available for appropriation	<u>4,123,804</u>	<u>2,367,962</u>	<u>1,817,197</u>	<u>(550,765)</u>
Charges to appropriations (outflows):				
Community services	-	-	216,506	(216,506)
Capital project expenditures:				
Street improvement program	4,975,070	1,181,030	738,706	442,324
Public service facility	-	616,641	242,360	374,281
Parks improvement program	2,126,910	77,030	142,214	(65,184)
Floodwall repairs and upgrades	340,000	42,450	7,340	35,110
Transfers to other funds	-	300,000	300,000	-
Total charges to appropriation	<u>7,441,980</u>	<u>2,217,151</u>	<u>1,647,126</u>	<u>570,025</u>
Other financing sources:				
Other financing source - bond proceeds	<u>3,340,000</u>	-	-	-
Budgetary fund balances, June 30	<u>\$ 21,824</u>	<u>\$ 150,811</u>	<u>\$ 170,071</u>	<u>\$ 19,260</u>

<p align="center">CITY OF NEWPORT, KENTUCKY</p> <p align="center">SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS</p> <p align="center">EMPLOYEES' RETIREMENT FUND</p> <p align="center">LAST FOUR FISCAL YEARS</p>

	2014	2015	2016	2017
Total pension liability				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest	96,307	94,516	81,914	40,195
Changes of benefit terms	73,370	44,114	-	-
Difference between expected and actual experience	(280,842)	(189,829)	(63,950)	(19,651)
Change in assumptions	310,707	195,572	261,386	(185,356)
Benefit payments	<u>(243,758)</u>	<u>(226,777)</u>	<u>(201,430)</u>	<u>(186,744)</u>
Net change in total pension liability	(44,216)	(82,404)	77,920	(351,556)
Total pension liability - beginning	<u>2,046,539</u>	<u>2,002,323</u>	<u>1,919,919</u>	<u>1,997,839</u>
Total pension liability - ending	2,002,323	1,919,919	1,997,839	1,646,283
Plan fiduciary net position				
Contributions:				
Employer	-	-	-	-
Employee	-	-	-	-
Net investment income	116,640	(18,699)	(28,637)	38,157
Benefit payments	(243,758)	(226,777)	(201,430)	(186,744)
Administrative expense	-	-	-	-
Refunds of contributions	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	(127,118)	(245,476)	(230,067)	(148,587)
Plan fiduciary net position - beginning	<u>1,280,319</u>	<u>1,153,201</u>	<u>907,725</u>	<u>677,658</u>
Plan fiduciary net position - ending	<u>1,153,201</u>	<u>907,725</u>	<u>677,658</u>	<u>529,071</u>
Net pension liability - ending	<u>\$ 849,122</u>	<u>\$ 1,012,194</u>	<u>\$ 1,320,181</u>	<u>\$ 1,117,212</u>
Plan fiduciary net position as a % of total pension liability	57.59%	47.28%	33.92%	32.14%
Covered employee payroll	-	-	-	-
Net pension liability as a % of covered-employee payroll	N/A	N/A	N/A	N/A

CITY OF NEWPORT, KENTUCKY
SCHEDULE OF CONTRIBUTIONS
EMPLOYEES' RETIREMENT FUND
LAST FOUR FISCAL YEARS

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 58,344	\$ 51,289	\$ 51,289	\$ 71,552
Contributions in relation to actuarially determined contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ 58,344</u>	<u>\$ 51,289</u>	<u>\$ 51,289</u>	<u>\$ 71,552</u>
 Covered-employee payroll	 \$ -	 \$ -	 \$ -	 \$ -
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A

Notes

Note 1: Valuation Date: Actuarially determined contribution rates are calculated as of July 1st following the fiscal year end in which the contributions are reported.

Note 2: Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level, closed
Remaining amortization period	20 years
Asset valuation method	Market value
Cost of Living increase	0.00%
Salary increases	N/A
Investment rate of return	5.50%
Retirement age	65 years old
Mortality	In the 2017 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2016 Mortality Tables.

CITY OF NEWPORT, KENTUCKY
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
POLICEMEN AND FIREFIGHTERS' RETIREMENT FUND
LAST FOUR FISCAL YEARS

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total pension liability				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest	205,401	193,347	167,421	91,182
Changes of benefit terms	62,846	56,156	-	-
Difference between expected and actual experience	(106,169)	(24,766)	17,761	15,759
Change in assumptions	55,493	432,511	477,015	(222,269)
Benefit payments	<u>(392,370)</u>	<u>(365,887)</u>	<u>(364,585)</u>	<u>(353,910)</u>
Net change in total pension liability	(174,799)	291,361	297,612	(469,238)
Total pension liability - beginning	<u>2,949,722</u>	<u>2,774,923</u>	<u>3,066,284</u>	<u>3,363,896</u>
Total pension liability - ending	2,774,923	3,066,284	3,363,896	2,894,658
Plan fiduciary net position				
Contributions:				
Employer	-	-	-	-
Employee	-	-	-	-
Net investment income	286,710	(70,036)	(35,616)	150,409
Benefit payments	(392,370)	(365,887)	(364,585)	(353,910)
Administrative expense	-	-	-	-
Refunds of contributions	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	(105,660)	(435,923)	(400,201)	(203,501)
Plan fiduciary net position - beginning	<u>2,855,930</u>	<u>2,750,270</u>	<u>2,314,347</u>	<u>1,914,146</u>
Plan fiduciary net position - ending	<u>2,750,270</u>	<u>2,314,347</u>	<u>1,914,146</u>	<u>1,710,645</u>
Net pension liability - ending	<u>\$ 24,653</u>	<u>\$ 751,937</u>	<u>\$ 1,449,750</u>	<u>\$ 1,184,013</u>
Plan fiduciary net position as a % of total pension liability	99.11%	75.48%	56.90%	59.10%
Covered employee payroll	\$ -	\$ -	\$ -	\$ -
Net pension liability as a % of covered-employee payroll	N/A	N/A	N/A	N/A

CITY OF NEWPORT, KENTUCKY
SCHEDULE OF CONTRIBUTIONS
POLICEMEN AND FIREFIGHTERS' RETIREMENT FUND
LAST FOUR FISCAL YEARS

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 1,691	\$ 1,528	\$ 1,528	\$ 70,409
Contributions in relation to actuarially determined contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ 1,691</u>	<u>\$ 1,528</u>	<u>\$ 1,528</u>	<u>\$ 70,409</u>
 Covered-employee payroll	 \$ -	 \$ -	 \$ -	 \$ -
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A

Notes

Note 1: Valuation Date: Actuarially determined contribution rates are calculated as of July 1st following the fiscal year end in which the contributions are reported.

Note 2: Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level, closed
Remaining amortization period	20 years
Asset valuation method	Market value
Cost of Living increase	0.00%
Salary increases	N/A
Investment rate of return	5.50%
Retirement age	65 years old
Mortality	In the 2017 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2016 Mortality Tables.

CITY OF NEWPORT, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM - NON-HAZARDOUS
LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2016</u>	<u>2017</u>
City's proportion of the net pension liability	0.075%	0.078%	0.0799%
City's proportionate share of the net pension liability (asset)	\$ 2,422,504	\$ 3,363,394	\$ 3,933,909
City's covered employee payroll	\$ 1,712,734	\$ 1,803,394	\$ 1,904,886
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	141.44%	186.50%	206.52%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

CITY OF NEWPORT, KENTUCKY
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM - NON-HAZARDOUS
LAST FOUR FISCAL YEARS

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 235,329	\$ 229,933	\$ 237,299	\$ 296,868
Contributions in relation to actuarially determined contribution	<u>235,329</u>	<u>229,933</u>	<u>237,299</u>	<u>296,868</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered-employee payroll	 \$ 1,712,734	 \$ 1,803,394	 \$ 1,904,886	 \$ 2,113,469
Contributions as a percentage of covered-employee payroll	13.74%	12.75%	12.46%	14.05%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The City's covered payroll reported above is for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

CITY OF NEWPORT, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM - HAZARDOUS
LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2016</u>	<u>2017</u>
City's proportion of the net pension liability	0.934%	0.944%	0.9487%
City's proportionate share of the net pension liability (asset)	\$ 11,230,216	\$ 14,493,582	\$ 16,279,790
City's covered employee payroll	\$ 4,775,916	\$ 4,817,366	\$ 4,929,315
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	235.14%	300.86%	330.26%
Plan fiduciary net position as a percentage of the total pension liability	63.46%	57.52%	53.95%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

CITY OF NEWPORT, KENTUCKY
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM - HAZARDOUS
LAST FOUR FISCAL YEARS

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 1,041,523	\$ 1,005,520	\$ 999,305	\$ 1,154,842
Contributions in relation to actuarially determined contribution	<u>1,041,523</u>	<u>1,005,520</u>	<u>999,305</u>	<u>1,154,842</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered-employee payroll	 \$ 4,775,916	 \$ 4,817,366	 \$ 4,929,315	 \$ 5,316,819
Contributions as a percentage of covered-employee payroll	21.81%	20.87%	20.27%	21.72%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The City's covered payroll reported above is for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

SUPPLEMENTARY INFORMATION

CITY OF NEWPORT, KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2017

	Policemen and Firefighters' Retirement Fund	Employees' Retirement Fund	Total
Assets			
Investments			
Cash balance in funds	\$ 269,768	\$ 167,058	\$ 436,826
Bonds	127,663	26,324	153,987
Closed end funds	278,744	63,193	341,937
Mutual funds	521,139	249,999	771,138
Market backed securities	118,411	22,007	140,418
Corporate Stock	<u>392,829</u>	<u>-</u>	<u>392,829</u>
Total Assets	<u>1,708,554</u>	<u>528,581</u>	<u>2,237,135</u>
Liabilities			
Due to (from) Fiduciary Fund	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Position			
Held in trust for pension benefits	<u>1,708,554</u>	<u>528,581</u>	<u>2,237,135</u>
Total Net Position	<u>\$ 1,708,554</u>	<u>\$ 528,581</u>	<u>\$ 2,237,135</u>

CITY OF NEWPORT, KENTUCKY
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2017

	<u>Policemen and Firefighters' Retirement Fund</u>	<u>Employees' Retirement Fund</u>	<u>Total</u>
Additions			
Employer contributions	\$ -	\$ -	\$ -
Investment earnings			
Interest and dividends	65,906	24,089	89,995
Net appreciation in the fair value of investments including realized gains and losses	<u>75,876</u>	<u>10,262</u>	<u>86,138</u>
Total investment earnings	<u>141,782</u>	<u>34,351</u>	<u>176,133</u>
Total Additions	<u>141,782</u>	<u>34,351</u>	<u>176,133</u>
Deductions			
Benefits	353,910	187,201	541,111
Administrative expense	<u>23,229</u>	<u>12,602</u>	<u>35,831</u>
Total Deductions	<u>377,139</u>	<u>199,803</u>	<u>576,942</u>
Change in Net Position	(235,357)	(165,452)	(400,809)
Net Position-Beginning Of Year	<u>1,943,911</u>	<u>694,033</u>	<u>2,637,944</u>
Net Position-End Of Year	<u>\$ 1,708,554</u>	<u>\$ 528,581</u>	<u>\$ 2,237,135</u>

CITY OF NEWPORT, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Agency	Federal Grantor/Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
HUD	Community Development Block Grant - Passed through Commonwealth of Kentucky Department for Local Government State-Administered Small Cities Program Newport Homeownership Development	14.228	15-033	\$ 592,331
DOT	Passed through Kentucky Transportation Cabinet Highway Planning and Construction Grant Carother's Road Redesign	20.205	PO2-625-1600003827	55,640
DOT	Passed through Kentucky Transportation Cabinet Newport Riverwalk Improvement Project Riverfront Commons Bicycle and Pedestrian Corridor	20.205	PO2-625-1700004459	6,400
DOT	Passed through Kentucky Transportation Cabinet Division of Highway Safety Programs Law Enforcement Overtime	20.600	PO2-625-170000561	5,710
DOI	Passed through Kentucky Heritage Council Historic Preservation Fund Grants-in-Aid	15.904	PON2-410-160000-3754	1,030
FEMA	Passed through Kentucky Office of Homeland Security Assistance to Firefighters Grant	97.044	EMW-2015-FV-01909	<u>476,191</u>
Total Federal Expenditures:				<u>\$1,137,302</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Newport, Kentucky and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from those numbers.

Note 2 - Indirect Cost Rates

The City did not elect to use the 10 percent de minimis cost rate allowed under the Uniform Guidance.

Note 3 - Subrecipient Pass Through

The City did not pass through any funds to subrecipients.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the Commission
City of Newport, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Newport, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Newport, Kentucky's basic financial statements, and have issued our report thereon dated February 1, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Newport, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Newport, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Newport, Kentucky's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Newport, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
February 1, 2018



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Honorable Mayor and
Members of the Commission
City of Newport, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Newport, Kentucky's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of City of Newport, Kentucky's major federal programs for the year ended June 30, 2017. City of Newport, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Newport, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Newport, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Newport, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Newport, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the City of Newport, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Newport, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Newport, Kentucky's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
February 1, 2018

**CITY OF NEWPORT, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2017**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified __Yes X No

Significant deficiencies identified that are not
considered to be material weaknesses __Yes X None reported

Non-compliance material to financial statements noted __Yes X No

Federal Awards:

Internal control over major programs:

Material weaknesses identified __Yes X No

Significant deficiencies identified that are not
considered to be material weaknesses __Yes X None reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be
reported in accordance with 2 CFR 200.516(a)? __Yes X No

Major Program:

CFDA Numbers

Name of Federal Program or Cluster

97.044

Assistance to Firefighters Grant

Dollar threshold used to distinguish between type A
and type B programs: \$ 750,000

Auditee qualified as a low-risk auditee? __Yes X No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE REPORTED

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE REPORTED

IV. PRIOR AUDIT FINDINGS

NONE REPORTED

STATISTICAL SECTION

STATISTICAL SECTION NARRATIVE

The Statistical Section of the City of Newport's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding the information in the financial statements, notes and supplementary information as it pertains to the overall financial health of the City.

Section 1: Financial Trend Data:

Pages 93 – 97

These tables contain trend information to help the reader understand how the City's financial status has changed in recent years.

Section 2: Revenue Capacity:

Pages 98 – 102

These tables contain information to help the reader assess the City's most significant local sources of revenue.

Section 3: Debt Capacity:

Pages 103 – 107

These tables include information to help the reader assess the affordability of the City's current outstanding debt and its ability to issue additional debt in the future.

Section 4: Demographic and Economic Information:

Page 108

This table shows demographic and economic indicators to help the reader understand the local environment in which the City's financial activities take place.

Section 5: Operating Information:

Pages 109 – 111

These tables contain service and infrastructure data to help the reader understand how the information contained in this report relates to the City's services and activities.

CITY OF NEWPORT, KENTUCKY
NET POSITION BY COMPONENT
Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	\$ 3,655,959	\$ (2,513,836)	\$ (1,764,812)	\$ 171,645	\$ 2,033,413	\$ 4,268,083	\$ 7,779,586	\$ 10,492,966	\$ 11,317,581	\$ 12,675,293
Restricted	5,716	4,191,255	3,810,281	464,478	2,126,793	1,351,158	35,464	81,193	4,141,909	3,293,973
Unrestricted	2,402,138	1,670,995	381,435	966,916	821,010	673,121	(12,272,560)	(12,858,460)	(17,217,833)	(16,781,529)
Total governmental activities net position	\$ 6,063,813	\$ 3,348,414	\$ 2,426,904	\$ 1,603,039	\$ 4,981,216	\$ 6,292,362	\$ (4,457,510)	\$ (2,284,301)	\$ (1,758,343)	\$ (812,263)
Business-type activities										
Net investment in capital assets	\$ (4,764,536)	\$ (3,310,768)	\$ (1,782,001)	\$ 436,766	\$ 1,855,533	\$ 1,524,302	\$ 1,839,167	\$ 1,726,037	\$ 2,052,781	\$ 2,099,182
Restricted	2,609,304	5,824,505	5,916,071	5,675,216	6,183,375	8,056,299	4,865,770	4,517,219	4,283,578	4,390,759
Unrestricted	5,010,547	944,617	1,066,343	831,923	782,140	319,735	(48,063)	71,938	127,019	187,480
Total business-type activities net position	\$ 2,855,315	\$ 3,458,354	\$ 5,200,413	\$ 6,943,905	\$ 8,821,048	\$ 9,900,336	\$ 6,656,874	\$ 6,315,194	\$ 6,463,378	\$ 6,677,421
Primary government										
Net investment in capital assets	\$ (1,108,577)	\$ (5,824,604)	\$ (3,546,813)	\$ 608,411	\$ 3,888,946	\$ 5,792,385	\$ 9,618,753	\$ 12,219,003	\$ 13,370,362	\$ 14,774,475
Restricted	2,615,020	10,015,760	9,726,352	6,139,694	8,310,168	9,407,457	4,901,234	4,598,412	8,425,487	7,684,732
Unrestricted	7,412,685	2,615,612	1,447,778	1,798,839	1,603,150	992,856	(12,320,623)	(12,786,522)	(17,090,814)	(16,594,049)
Total primary government net position	\$ 8,919,128	\$ 6,806,768	\$ 7,627,317	\$ 8,546,944	\$ 13,802,264	\$ 16,192,698	\$ 2,199,364	\$ 4,030,893	\$ 4,705,035	\$ 5,865,158

Note: Net position for 2015 and 2014 shown with a restatement due to the implementation of GASB 68

CITY OF NEWPORT, KENTUCKY
CHANGES IN NET POSITION
Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government	\$ 1,965,997	\$ 1,922,031	\$ 1,868,549	\$ 1,778,054	\$ 1,499,391	\$ 1,747,163	\$ 1,811,096	\$ 1,829,592	\$ 2,961,163	\$ 3,856,204
Police	5,497,289	5,554,307	5,555,965	5,794,501	4,411,540	4,958,910	4,864,165	4,973,609	5,438,311	5,541,681
Fire/EMS	4,490,843	4,576,717	4,404,278	4,524,310	3,928,970	4,287,637	4,325,418	4,451,947	5,272,373	5,253,734
Development services	542,138	588,128	515,562	1,762,281	806,179	699,017	1,712,783	708,249	809,960	1,542,152
Community services	4,722,306	4,802,442	2,769,201	2,574,489	2,208,272	2,587,440	3,124,678	2,987,731	3,233,087	3,164,224
Municipal complex	321,582	331,945	311,207	313,053	348,160	346,430	307,821	347,091	310,673	290,707
Interest on long-term debt	1,284,127	1,236,834	1,194,156	1,195,131	1,131,534	1,059,359	974,019	794,518	760,692	614,309
Total governmental activities expenses	18,824,282	19,012,404	16,618,918	17,941,819	14,334,046	15,685,956	17,119,980	16,092,737	18,786,259	20,263,011
Business-type activities:										
Refuse	831,708	889,466	932,132	1,018,014	1,078,905	1,084,372	1,112,668	1,124,065	1,216,349	1,234,511
Newport on the Levee	6,825,090	7,142,808	6,067,222	6,117,063	5,779,336	5,996,105	8,514,839	5,511,513	5,320,849	5,116,313
Total business-type activities expenses	7,656,798	8,032,274	6,999,354	7,135,077	6,858,241	7,080,477	9,627,507	6,635,578	6,537,198	6,350,824
Total primary government expenses	\$ 26,481,080	\$ 27,044,678	\$ 23,618,272	\$ 25,076,896	\$ 21,192,287	\$ 22,766,433	\$ 26,747,487	\$ 22,728,315	\$ 25,323,457	\$ 26,613,835
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 189,617	\$ 186,793	\$ 329,815	\$ 213,501	\$ 391,529	\$ 261,166	\$ 231,970	\$ 236,143	\$ 239,634	\$ 248,633
Police	328,866	820,623	736,728	292,558	806,560	338,300	242,472	279,813	342,751	297,510
Fire/EMS	449,407	825,536	767,974	499,237	934,907	457,831	477,499	534,085	496,695	475,917
Development services	-	41,801	43,300	-	62,337	12,885	15,055	25,732	28,754	43,988
Community services	140,310	251,152	256,671	157,893	219,322	121,603	50,139	79,111	48,430	88,383
Municipal complex	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	713,497	1,158,384	529,478	657,100	673,362	1,158,359	1,098,265	1,141,755	968,693	897,990
Capital grants and contributions	515,859	443,365	541,336	2,159,270	1,896,717	1,813,415	4,176,657	586,025	1,028,185	1,486,750
Total governmental activities program revenues	2,337,556	3,727,654	3,205,302	3,979,559	4,984,734	4,163,559	6,292,057	2,882,664	3,153,142	3,539,171
Business-type activities:										
Charges for services:										
Refuse	892,625	882,699	1,054,874	1,103,387	1,149,023	1,211,843	1,234,637	1,287,365	1,350,209	1,384,000
Newport on the Levee	7,607,245	6,859,790	7,405,629	7,509,365	7,321,280	7,507,103	4,525,184	4,746,981	5,077,473	4,921,279
Capital grants and contributions	-	571,759	-	-	-	-	-	-	-	-
Total business-type activities program revenues	8,499,870	8,314,248	8,460,503	8,612,752	8,470,303	8,718,946	5,759,821	6,034,346	6,427,682	6,305,279
Total primary government program revenues	\$ 10,837,426	\$ 12,041,902	\$ 11,665,805	\$ 12,592,311	\$ 13,455,037	\$ 12,882,505	\$ 12,051,878	\$ 8,917,010	\$ 9,580,824	\$ 9,844,450

CITY OF NEWPORT, KENTUCKY
CHANGES IN NET POSITION
Last Ten Fiscal Years

	(Continued)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net (Expense)/Revenue										
Governmental activities	\$ (16,486,726)	\$ (15,284,750)	\$ (13,413,616)	\$ (13,962,260)	\$ (9,349,312)	\$ (11,522,397)	\$ (10,827,923)	\$ (13,210,073)	\$ (15,633,117)	\$ (16,723,840)
Business-type activities	843,072	281,974	1,461,149	1,477,675	1,612,062	1,638,469	(3,867,686)	(601,232)	(109,516)	(45,545)
Total primary government net (expense)/revenue	\$ (15,643,654)	\$ (15,002,776)	\$ (11,952,467)	\$ (12,484,585)	\$ (7,737,250)	\$ (9,883,928)	\$ (14,695,609)	\$ (13,811,305)	\$ (15,742,633)	\$ (16,769,385)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes, levied for general purposes	\$ 1,405,770	\$ 1,533,702	\$ 1,615,235	\$ 1,721,021	\$ 1,980,029	\$ 1,953,820	\$ 3,727,354	\$ 2,590,894	\$ 2,038,779	\$ 2,133,032
Taxes, levied for bank deposits	49,535	47,354	46,019	58,323	49,251	50,839	61,721	61,426	64,964	67,447
Tangible	194,007	224,687	194,245	213,579	229,851	254,259	252,477	272,173	280,160	222,681
Payroll	5,343,994	5,144,845	4,939,656	5,055,781	4,960,332	4,887,904	5,276,794	5,724,313	6,201,961	6,623,813
Gross receipts franchise	1,477,946	1,447,271	1,417,593	1,412,842	1,435,960	1,590,134	1,671,196	1,885,917	2,026,947	1,771,847
Insurance premiums	1,957,783	2,571,317	2,432,879	2,515,644	2,268,680	2,763,745	2,981,708	2,943,775	2,861,193	3,122,632
Other permits	544,642	484,804	507,129	539,701	580,911	621,522	631,232	760,895	579,216	650,769
Franchise fees	725,774	708,161	696,490	722,659	698,698	651,868	701,437	667,857	574,829	595,515
Other uses of property	299,300	263,543	547,917	845,530	490,683	445,329	517,532	483,249	1,413,721	2,368,475
Grants and contributions - non-program specific	9,412	20,594	16,168	67,939	38,192	15,645	-	-	-	-
Interest	275,089	52,645	2,515	1,633	2,216	2,124	2,559	3,937	4,191	8,560
Miscellaneous	80,463	39,534	39,339	25,124	12,470	13,814	13,385	3,785	35,757	85,596
Gain (loss) on sale of capital assets	-	-	-	-	-	-	(49,000)	-	(1,000)	15,853
Transfers	33,170	30,894	36,921	(41,381)	(19,784)	(17,585)	(16,788)	(14,939)	47,257	48,700
Transfers from (to) component unit	-	-	-	-	-	-	-	-	31,100	(45,000)
Prior period adjustment	-	-	-	-	-	(399,875)	-	-	-	-
Total governmental activities	12,396,885	12,569,351	12,492,106	13,138,395	12,727,489	12,833,543	15,771,607	15,383,282	16,159,075	17,669,920
Business-type activities:										
Grants and contributions - non-program specific	-	-	-	-	-	-	-	-	-	-
Interest	443,491	351,959	317,831	304,436	305,297	303,561	304,395	304,613	304,957	308,288
Gain (loss) on sale of capital assets	-	-	-	-	-	-	-	-	-	-
Transfers	(31,225)	(30,894)	(36,921)	(38,619)	(40,216)	(42,415)	(43,212)	(45,061)	(47,257)	(48,700)
Prior period adjustment	-	-	-	-	-	(820,327)	(514,117)	-	-	-
Total business-type activities	412,266	321,065	280,910	265,817	265,081	(559,181)	(252,934)	259,552	257,700	259,588
Total primary government	\$ 12,809,151	\$ 12,890,416	\$ 12,773,016	\$ 13,404,212	\$ 12,992,570	\$ 12,274,362	\$ 15,518,673	\$ 15,642,834	\$ 16,416,775	\$ 17,929,508
Change in net position										
Governmental activities	\$ (4,089,841)	\$ (2,715,399)	\$ (921,510)	\$ (823,865)	\$ 3,378,177	\$ 1,311,146	\$ 4,943,684	\$ 2,173,209	\$ 525,958	\$ 946,080
Business-type activities	1,255,338	603,039	1,742,059	1,743,492	1,877,143	1,079,288	(4,120,620)	(341,680)	148,184	214,043
Total change in net position	\$ (2,834,503)	\$ (2,112,360)	\$ 820,549	\$ 919,627	\$ 5,255,320	\$ 2,390,434	\$ 823,064	\$ 1,831,529	\$ 674,142	\$ 1,160,123

Note: The city began to report accrual information when it implemented GASB 34 in fiscal year 2002.

CITY OF NEWPORT, KENTUCKY
FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General fund										
Restricted, Committed, etc.	\$ 3,024	\$ 2,739	\$ (1,856)	\$ 233,037	\$ 102,597	\$ 99,797	\$ 40,473	\$ 94,714	\$ 4,141,946	\$ 3,294,679
Unassigned	136,974	88,543	(695,953)	(546,959)	(51,588)	178,062	2,293,558	1,944,398	3,537,244	3,915,570
Total general fund	\$ 139,998	\$ 91,282	\$ (697,809)	\$ (313,922)	\$ 51,009	\$ 277,859	\$ 2,334,031	\$ 2,039,112	\$ 7,679,190	\$ 7,210,249
All other governmental funds										
Restricted, Committed, etc.	\$ 3,145,000	\$ 500,434	\$ 501,062	\$ 920,584	\$ 599,416	\$ 487,967	\$ 428,478	\$ 462,520	\$ 602,171	\$ 690,425
Unassigned, reported in:										
Revolving loan fund	-	-	-	-	-	(29,399)	-	-	-	-
Special revenue funds	392,264	337,993	342,182	-	-	-	-	-	-	-
Capital projects funds	1,564	83	85	-	-	-	-	(3,731)	-	-
Total all other governmental funds	\$ 3,538,828	\$ 838,510	\$ 843,329	\$ 920,584	\$ 599,416	\$ 458,568	\$ 428,478	\$ 458,789	\$ 602,171	\$ 690,425

CITY OF NEWPORT, KENTUCKY
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Taxes	\$ 1,649,312	\$ 1,805,743	\$ 1,855,499	\$ 1,992,923	\$ 2,259,131	\$ 2,258,918	\$ 4,019,952	\$ 2,911,967	\$ 2,402,093	\$ 2,428,217
Licenses and permits	9,324,365	9,648,237	9,297,983	9,523,968	9,245,882	9,863,305	10,560,930	11,314,900	11,669,317	12,169,061
Intergovernmental	1,364,384	1,651,302	989,821	2,770,299	1,759,750	2,408,022	4,885,470	1,719,409	1,990,064	2,379,536
Fines and forfeitures	186,544	195,432	144,105	160,459	177,586	159,381	102,172	114,879	100,013	90,053
Charges for services	928,410	938,792	906,455	1,002,730	1,039,922	995,904	983,802	1,029,657	1,091,226	1,044,991
Uses of property	1,752,278	1,522,057	1,260,958	1,568,188	1,166,992	1,712,093	1,328,814	1,204,981	2,042,425	3,027,944
Interest	273,407	52,156	2,228	1,357	1,980	1,907	2,382	3,839	4,035	8,450
Miscellaneous	294,014	525,020	403,302	363,137	1,039,320	93,739	288,491	3,785	35,757	153,654
Total revenues	15,772,714	16,338,739	14,860,351	17,383,061	16,690,563	17,493,269	22,172,013	18,303,417	19,334,930	21,301,906
Expenditures										
General government	1,897,548	1,679,417	1,611,293	1,549,703	1,521,333	1,606,362	1,628,804	1,686,759	2,166,545	3,719,893
Police	5,107,781	4,857,106	4,803,983	4,413,309	4,495,014	4,699,789	4,600,633	4,620,901	4,499,178	4,919,023
Fire/EMS	4,238,323	3,984,505	3,777,219	3,827,032	4,006,267	4,002,085	4,012,694	4,089,724	4,372,694	4,516,539
Development services	519,473	494,205	443,266	1,758,876	775,560	651,684	1,632,634	652,217	716,881	1,428,255
Community services	3,568,847	3,602,396	1,714,048	1,373,411	1,435,138	1,695,088	2,228,436	2,029,004	2,104,366	2,149,250
Municipal complex	164,620	180,328	174,420	179,111	215,057	216,736	176,882	216,689	180,448	191,080
Capital outlay	334,637	1,812,623	326,675	919,631	1,475,024	1,775,298	3,169,052	2,378,130	1,999,322	1,967,606
Debt service										
Principal	1,788,551	1,701,049	1,704,423	1,653,815	1,561,530	1,614,116	1,661,771	1,662,655	1,642,417	1,703,425
Interest	1,257,713	1,244,573	1,202,585	1,205,650	1,142,095	1,070,524	918,237	806,257	760,875	658,032
Debt issuance cost	-	-	-	-	-	-	-	-	-	-
Total expenditures	18,877,493	19,556,202	15,757,912	16,880,538	16,627,018	17,331,682	20,029,143	18,142,336	18,442,726	21,253,103
Excess (deficiency) of revenues over (under) expenditures	(3,104,779)	(3,217,463)	(897,561)	502,523	63,545	161,587	2,142,870	161,081	892,204	48,803
Other financing sources (uses)										
Proceeds from long-term debt, including premium	162,464	437,535	76,369	-	-	-	8,042,767	-	12,214,108	3,297,129
Refunding of long-term debt	-	-	-	-	-	-	(7,987,155)	-	(6,734,623)	(3,221,130)
Bond issue costs on refunded debt	-	-	-	-	-	-	(55,612)	-	(366,586)	(74,189)
Sale of capital assets	-	-	-	-	-	-	-	-	-	-
Discount on debt issued	-	-	-	-	-	-	-	-	-	-
Transfers in	2,458,413	1,235,358	446,129	220,231	163,659	809,425	1,047,607	642,609	745,832	1,771,588
Transfers out	(2,676,524)	(1,204,464)	(409,208)	(261,612)	(183,443)	(885,010)	(1,164,395)	(1,068,298)	(967,475)	(2,202,888)
Total other financing sources (uses)	(55,647)	468,429	113,290	(41,381)	(19,784)	(75,585)	(116,788)	(425,689)	4,891,256	(429,490)
Special items										
Pension contributions from bond issue	-	-	-	-	-	-	-	-	-	-
Total special items	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	\$ (3,160,426)	\$ (2,749,034)	\$ (784,271)	\$ 461,142	\$ 43,761	\$ 86,002	\$ 2,026,082	\$ (264,608)	\$ 5,783,460	\$ (380,687)
Debt service as a percentage of non capital expenditures	16.43%	16.60%	18.84%	17.92%	17.84%	17.26%	15.30%	15.66%	14.62%	12.24%

CITY OF NEWPORT, KENTUCKY
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year Ended June 30	Residential Property	Real Property Commercial Property	Public Service	Personal Property Personal Property	Public Service	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2008	431,942,010	433,655,089	11,677,985	50,083,985	13,768,277	254,897,116	686,230,230	2.20	941,127,346	72.92%
2009	497,836,401	479,060,956	11,880,455	47,009,088	13,800,301	287,734,430	761,852,771	2.11	1,049,587,201	72.59%
2010	494,347,123	622,782,299	11,761,300	50,828,905	14,466,985	430,936,055	763,250,557	2.25	1,194,186,612	63.91%
2011	490,644,819	601,321,953	13,649,405	55,475,343	15,095,951	412,209,452	763,978,019	2.39	1,176,187,471	64.95%
2012	484,611,603	602,987,017	14,079,362	59,036,972	15,374,007	414,985,234	761,103,727	2.52	1,176,088,961	64.71%
2013	468,149,876	617,232,472	15,360,965	58,715,730	16,518,663	431,805,365	744,172,341	2.58	1,175,977,706	63.28%
2014	463,665,282	611,205,897	16,567,680	57,345,597	18,064,234	435,075,846	731,772,844	2.64	1,166,848,690	62.71%
2015	462,715,480	677,179,540	17,001,308	64,344,787	18,797,582	501,477,996	738,560,701	2.75	1,240,038,697	59.56%
2016	464,915,199	701,736,079	17,616,304	81,235,252	17,945,030	507,099,108	776,348,756	2.74	1,283,447,864	60.49%
2017	470,805,842	717,031,027	17,648,717	70,757,341	21,430,390	544,886,076	752,787,241	2.81	1,297,673,317	58.01%

CITY OF NEWPORT, KENTUCKY
PROPERTY TAX RATES (1)
DIRECT AND OVERLAPPING GOVERNMENTS(2)
Last Ten Fiscal Years

Fiscal Year	City of Newport	Campbell County	Overlapping Rates		School District	Total Direct and Overlapping Rates
			State	Other		
2008	2.200	1.120	1.240	1.196	8.770	14.526
2009	2.110	1.160	1.220	1.118	8.200	13.808
2010	2.250	1.240	1.220	1.158	8.610	14.478
2011	2.390	1.280	1.220	1.198	8.860	14.948
2012	2.520	1.360	1.220	1.238	9.270	15.608
2013	2.580	1.430	1.220	1.318	9.510	16.058
2014	2.640	1.500	1.220	1.308	9.770	16.438
2015	2.740	1.540	1.220	1.348	9.770	16.618
2016	2.740	1.620	1.220	1.348	9.750	16.678
2017	2.810	1.670	1.220	1.308	10.060	17.068

(1) Per \$1000 assessed valuation

(2) Overlapping rates are those of the county government that apply to property owners living in the City of Newport.

CITY OF NEWPORT
PRINCIPAL PROPERTY TAXPAYERS
June 30, 2017

Taxpayer	2017			2008		
	Taxable Assessed Valuation	Rank	Percentage of Total Taxable Assessed Valuation	Taxable Assessed Valuation	Rank	Percentage of Total Taxable Assessed Valuation
Riverfront Place Ltd.	13,737,000	1	1.86%	14,200,000	1	2.22%
CPX Newport Commercial Devp LLC	10,375,000	2	1.41%	11,150,000	2	1.62%
Riverchase Properties LLC	6,779,134	3	0.92%	6,575,000	4	1.03%
Kroger Limited Partnership	6,682,550	4	0.91%	-		0.00%
Newport Hotel Associates LLC	6,175,000	5	0.84%	4,474,400	8	0.70%
KY Properties Company	5,950,000	6	0.81%	5,100,000	6	0.80%
New Riff Distilling LLC	5,622,977	7	0.76%	-		
American Diversified Development	5,000,000	8	0.68%	6,280,300	5	
Target DBA Target Store # 2483	4,423,969	9	0.60%	-		
Belevue RE LLC	4,113,400	10	0.56%	-		
Louis Trauth Dairy Inc (Real)	-			8,289,000	3	1.30%
Gator Newport Partners LTD	-			4,497,062	7	0.70%
Louis Trauth Dairy LLC (Tang)	-			3,944,010	9	0.62%
Newport on the Levee				3,678,000	10	0.58%
TOTAL	\$ 68,859,030		9.33%	\$ 68,187,772		9.57%

CITY OF NEWPORT, KENTUCKY PRINCIPAL EMPLOYERS BY PAYROLL TAXES PAID Current Year and Nine Years Ago				
	2017		2008	
	Rank	Percentage of Total City Payroll Taxes	Rank	Percentage of Total City Payroll Taxes
Newport Board of Education	1	5.20%	1	7.66%
Commonwealth of Kentucky	2	4.96%	2	4.83%
Kroger #423	3	3.31%		
Defender Direct	4	2.95%		
P L Marketing Inc	5	2.91%		
City of Newport	6	2.90%	5	3.69%
Baptist Convalescent Court	7	2.38%	7	2.46%
Campbell County Fiscal Court	8	2.35%	8	2.44%
Newport Aquarium LLC	9	2.05%	9	1.61%
Harlow-HRK	10	1.61%		
Trauth Dairy			3	4.56%
Humana Insurance			4	3.79%
Xanodyne			6	3.27%
Gerner & Kearns Co. LPA			10	1.39%
		30.62%		35.70%

CITY OF NEWPORT, KENTUCKY
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the		Collections in Subsequent years	Total Collections to Date	
		Fiscal year of the Levy	Percent		Amount	Percentage of
		Amount	of Levy			Levy
2008	1,581,477	1,499,031	94.8%	58,542	1,557,573	98.5%
2009	1,664,161	1,613,350	96.9%	89,965	1,703,315	102.4%
2010	1,767,539	1,692,413	95.7%	46,585	1,738,999	98.4%
2011	1,874,485	1,777,769	94.8%	66,668	1,844,437	98.4%
2012	1,971,360	1,908,201	96.8%	76,526	1,984,727	100.7%
2013	1,944,338	1,862,730	95.8%	108,596	1,971,325	101.4%
2014	1,973,958	1,870,998	94.8%	76,343	1,947,341	98.7%
2015	2,044,966	1,957,349	95.7%	95,212	2,052,561	100.4%
2016	2,120,034	1,972,673	93.0%	100,704	2,073,377	97.8%
2017	2,114,952	2,030,191	96.0%	71,397	2,101,589	99.4%

CITY OF NEWPORT, KENTUCKY
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt limit	68.62	76.19	76.33	76.40	76.11	74.42	73.18	73.86	77.64	75.28
Total debt applicable to limit	(27.54)	(26.25)	(24.91)	(23.54)	(23.97)	(20.65)	(19.27)	(17.75)	(21.97)	(20.43)
Legal debt margin	96.16	102.44	101.24	99.93	100.08	95.06	92.45	91.61	99.61	95.71
Total debt applicable to the limit as a percentage of debt limit	-40.13%	-34.46%	-32.64%	-30.81%	-31.49%	-27.74%	-26.33%	-24.03%	-28.30%	-27.14%

Legal Debt Margin Calculation for Fiscal Year

Total taxable assessed value	\$ 763,978	\$ 761,104	\$ 744,172	\$ 731,773	\$ 738,561	\$ 776,349	\$ 752,787
Debt limit (10% of total taxable assessed value)	\$ 76,398	\$ 76,110	\$ 74,417	\$ 73,177	\$ 73,856	\$ 77,635	\$ 75,279
Less Debt applicable to limit:	(23,535)	(23,969)	(20,645)	(19,270)	(17,745)	(21,974)	(20,431)
Legal debt margin	<u>\$ 52,863</u>	<u>\$ 52,141</u>	<u>\$ 53,772</u>	<u>\$ 53,907</u>	<u>\$ 56,111</u>	<u>\$ 55,661</u>	<u>\$ 54,848</u>

Note: Under KRS 66.041, the City of Newport's outstanding general obligation debt should not exceed 10 percent of total taxable assessed value.

CITY OF NEWPORT, KENTUCKY
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Governmental Activities			Business-type Activities		Total Primary Government	Percentage to Personal Income	Per Capita
	General Obligation Bonds	Notes Payable	Capital Leases	Revenue Bonds	Notes Payable			
2008	27,540,000	2,377,346	595,439	42,185,000	-	72,697,785	4.90%	4,264
2009	26,250,000	2,189,622	372,113	39,155,000	-	67,966,735	4.66%	3,987
2010	24,910,000	2,066,621	207,471	36,050,000	-	63,234,092	4.43%	3,709
2011	23,535,000	1,941,892	53,385	32,740,000	-	58,270,277	4.42%	3,790
2012	22,115,000	1,815,410	38,337	29,260,000	-	53,228,747	4.15%	3,462
2013	20,645,000	1,687,152	22,479	28,015,000	-	50,369,631	4.18%	3,263
2014	19,267,767	1,557,091	5,768	26,660,000	-	47,490,626	3.86%	3,076
2015	17,742,767	1,425,204	-	25,195,000	-	44,362,971	3.54%	2,868
2016	22,184,169	1,291,463	-	23,605,000	-	47,080,632	3.96%	2,762
2017	20,779,722	1,155,844	-	21,885,000	-	43,820,566	4.14%	2,875

CITY OF NEWPORT, KENTUCKY
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years

Governmental Activities

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
2008	27,540,000	1.94%	1,615
2009	26,250,000	3.14%	1,540
2010	24,910,000	2.93%	1,461
2011	23,535,000	2.50%	1,531
2012	22,115,000	2.09%	1,439
2013	20,645,000	2.00%	1,337
2014	19,267,767	1.88%	1,248
2015	17,742,767	1.77%	1,147
2016	22,184,169	1.65%	1,301
2017	20,779,722	1.60%	1,363

CITY OF NEWPORT, KENTUCKY
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2017

Governmental Unit		Debt Outstanding	Estimated Percentage Applicable (3)	Estimated Share of Overlapping Debt
Debt repaid with property taxes: School	(1) \$	11,998,285	98.02%	\$ 11,760,812
Debt repaid with property taxes: County	(2) \$	21,430,000	12.21%	2,615,676
Subtotal overlapping debt				<u>14,376,488</u>
City of Newport direct debt				<u>20,779,722</u>
Total direct and overlapping				<u><u>\$ 35,156,210</u></u>

Source (1) Newport Board of Education

(2) Campbell County Fiscal Court

(3) The percentage overlapping debt applicable is estimated using taxable assessed property values.

Applicable percentages were estimated by determining the portion of the taxable assessed value that is within the City of Newport and dividing it by the county's/school's total taxable assessed value.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Newport. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

CITY OF NEWPORT, KENTUCKY
PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years

Newport on the Levee

Revenue Bonds

Fiscal Year	Gross Revenues⁽¹⁾	Operating Expenses⁽²⁾	Net Revenue Available for Debt Service	Debt Service		Coverage
				Principal	Interest	
2008	8,043,630	1,376,131	6,667,499	2,985,000	3,756,994	0.99
2009	7,782,283	2,011,613	5,770,670	3,030,000	3,454,263	0.89
2010	7,723,152	1,253,834	6,469,318	3,105,000	3,181,541	1.03
2011	7,509,365	1,593,848	5,915,517	3,310,000	2,891,367	0.95
2012	7,321,280	1,546,521	5,774,759	2,995,000	2,600,966	1.03
2013	7,810,664	1,996,457	5,814,207	1,245,000	2,423,415	1.58
2014	4,829,082	1,686,164	3,142,918	1,355,000	2,314,541	0.86
2015	5,050,844	1,736,930	3,313,914	1,465,000	2,196,453	0.91
2016	5,381,766	1,769,150	3,612,616	1,590,000	2,068,525	0.99
2017	5,228,813	1,563,546	3,665,267	1,720,000	1,929,919	1.00

(1) Total Revenues (including interest)

(2) Total operating expenses exclusive of depreciation

CITY OF NEWPORT, KENTUCKY
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income	Median Income (2)	Median Age (3)	Newport Independent Public School Enrollment (4)	Unemployment Rate (5)
2008	17,048	623,240,784	36,558	35.2	1,733	6.2%
2009	17,048	617,734,280	36,235	35.4	1,780	10.1%
2010	17,048	613,165,416	35,967	35.4	1,955	10.4%
2011	15,373	576,964,063	37,531	34.0	1,786	10.0%
2012	15,373	576,964,063	37,531	34.0	1,691	7.7%
2013	15,436	535,166,120	34,670	35.9	1,824	7.5%
2014	15,438	540,330,000	35,000	36.0	1,979	8.1%
2015	15,467	541,979,147	35,041	35.4	1,949	4.4%
2016	17,048	592,145,232	34,734	31.9	1,949	3.2%
2017 *	15,241	529,380,894	34,734	35.7	1,572	3.9%

(1) Census Bureau updated estimate and State Data Center

(2) U.S. Census Bureau

(3) U.S. Census Bureau

(4) Newport Independent School District

(5) Bureau of Labor Statistics Data and KY Department for Employment Services
using Campbell County data.

* 2017 figures incomplete

CITY OF NEWPORT, KENTUCKY
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Full-Time Equivalent Employees as of June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Function/Program										
General Government										
Office of the City Manager	7	6	6	6	7	6	6	6	4	6
Finance & Administration	10	7	7	6	6	5	5	5	6	5
Public Safety										
Police										
Sworn	49	47	42	45	43	41	42	42	42	41
Civilian	4	4	4	4	6	4	5	7	8	8
Fire										
Firefighters & Officers	37	37	35	37	37	37	37	37	37	37
Civilian	1	1	1	1	1	1	1	1	1	1
Development Services										
Administration	3	3	2	2	2	2	2	2	2	2
Code Enforcement	4	4	4	2	4	2	2	2	2	3
Community Services										
Administration	2	2	2	2	2	2	2	2	2	2
Code Enforcement	-	-	-	-	-	-	-	-	-	-
Maintenance	14	13	12	7	7	9	9	9	9	12
Parks and Recreation	1	-	-	-	-	-	-	-	-	-
Total	<u>132</u>	<u>124</u>	<u>115</u>	<u>112</u>	<u>115</u>	<u>109</u>	<u>111</u>	<u>113</u>	<u>113</u>	<u>117</u>

Source: Finance & Administration Department (Budget Documents)

CITY OF NEWPORT, KENTUCKY
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year									
Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police										
Physical arrests	3,736	3,408	3,626	5,364	5,177	3,025	4,102	8,060	6,116	2,835
Parking violations	8,363	10,827	8,336	9,196	7,607	7,604	5,377	4,946	5,430	10,628
Traffic violations	1,482	1,063	1,126	1,979	1,075	2,627	3,977	5,915	2,811	1,434
Fire										
Number of calls answered:										
Fire	751	1,581	1,493	1,493	1,571	1,629	1,637	1,642	1,643	1,720
Emergency Medical Services	4,201	3,400	3,311	3,313	3,555	3,336	3,435	3,702	3,592	3,512
Inspections	1,592	1,509	1,198	943	875	904	744	673	678	475
Highways and streets										
Street resurfacing (miles)	-	-	-	-	-	0.5	1.2	3.5	1.6	1.4
Potholes repaired	6,359	5,016	N/A	N/A	N/A	4,269	4,269	4,464	3,897	1,640
Culture and recreation										
Athletic field permits issued	275	280	302	338	258	80	77	82	87	742
Pool admissions	1,148	3,793	3,479	6,474	12,223	9,998	8,557	8,166	9,151	6,740
Pool passes	15	9	24	31	45	230	327	352	60	371
Facilities and services not included in this reporting entity:										
Education:										
Number of elementary school instructors	87	84	82	84	74	76	79	79	70	72
Number of secondary school instructors	79	72	72	79	76	81	85	84	79	80
Water										
Number of service connections	5,940	5,750	5,093	6,286	6,192	6,108	6,104	6,104	5,701	5,716
Average daily consumption (thousands of gallons)	2,500	2,500	2,400	2,300	2,300	2,300	2,300	2,300	4,100	4,100
Sanitation										
Average daily sewage treatment (thousands of gallons)	35,200	34,600	35,880	36,970	40,850	35,700	35,800	37,000	36,600	36,600

CITY OF NEWPORT, KENTUCKY
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year									
Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	41	41	34	34	32	41	41	38	30	32
Fire stations	2	2	2	2	2	2	2	2	2	2
Apparatus	6	6	6	6	6	6	6	6	6	6
Highways and streets										
Street (miles)	35	35	35	35	35	35	35	35	35	35
Streetlights	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,300
Culture and recreation										
Parks acreage	51.79	51.79	51.79	51.79	51.79	51.79	51.79	51.79	51.79	51.79
Parks	13	13	13	12	12	12	12	12	12	12
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	3	3	3	3	3	3	3	3	3	3
Ball fields	6	6	6	6	6	6	6	6	6	6
Facilities and services not included in this reporting entity:										
Education:										
Number of elementary schools	3	3	3	2	2	2	2	2	2	2
Number of secondary schools	2	2	2	2	2	2	2	2	2	2
Water										
Water mains (miles)	45.21	51.60	51.30	51.30	53.42	53.50	53.50	53.50	58.90	59.27
Fire hydrants	425	530	455	440	464	434	434	473	485	474
Maximum daily capacity (thousands of gallons)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Sanitation										
Contained sanitary/storm sewers (r	1,600	1,600	1,600	1,700	1,700	1,700	1,966	1,971	1,990	2,071
Number of treatment plants	1	1	1	1	11	11	7	7	7	7
Maximum daily treatment capacity (thousands of gallons)	46,500	46,500	46,500	51,600	71,500	70,500	70,600	70,500	70,500	70,500